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## LETTER FROM THE COMMISSIONER

October 1, 2003


The Honorable Joseph E. Kernan  
Governor, State of Indiana  
State House, Room 206  
Indianapolis, Indiana 46204-2797

Dear Governor Kernan:

It is my pleasure to present to you a copy of the Indiana Department of Revenue's thirteenth annual report. The report provides you and the Indiana Legislative Council with a summary of the Department's accomplishments and also meets all legal requirements set forth by Indiana Code 6-8.1-1-14.

Also, as Commissioner, I attest that the Department is in compliance with Indiana Code 6-8.1-3-2.5, which states that the Department may not include the amount of revenue collected or tax liability assessed in the evaluation of an employee; nor may it impose or suggest production quotas or goals for employees based on the number of cases closed.

Sincerely,

A handwritten signature in black ink, appearing to read "Kenneth L. Miller". The signature is fluid and cursive, with the first name "Kenneth" being more prominent and the last name "Miller" following in a similar style.

Kenneth L. Miller  
Commissioner

# ABOUT THE INDIANA DEPARTMENT OF REVENUE

## Mission Statement

The Indiana Department of Revenue will administer the tax laws of the State of Indiana in an equitable and courteous manner to promote the highest degree of public trust and voluntary compliance.

## Motto

"Committed to public trust and service."

## Department Divisions

### Administration

Sections: Commissioner, Deputy Commissioner, General Counsel to the Commissioner and Director of Operations.

The four main components of this division assist in overseeing the entire agency.

### Audit

Sections: Audit Billing/Inquiries, Audit Review, Audit Selection, Operations, Special Tax, Field Auditing and Taxpayer Services in District Offices.

This division promotes voluntary compliance throughout the state and the country in all Indiana tax areas through quality examinations. It is also responsible for the Department's 11 District Offices, which are located throughout Indiana.

### Collections

Sections: Titles/Licensing, Agent/Taxpayer Contact, Telephone Pursuit, Correspondence and Research/Payment Processing

This division provides centralized management in the collection of delinquent tax liabilities.

### Compliance

Sections: Individual Withholding, Charity Gaming and Nonprofit, Sales, Fuel and Utility Refund, Aeronautic and Bankruptcy.

Income and Withholding, Charity Gaming and Nonprofit, Refund Center, Corporate Account Maintenance, Fiduciary, Bankruptcy,

Responsibilities: Aircraft, Bankruptcy, Charity Gaming, Consumer Use Tax, Corporate Dissolution Billings, Corporate Federal Audit Adjustments, Corporate Reinstatements, Discovery Projects, Doubtful Exemption User Billings, Fiduciary Tax, Fuel Tax Refunds, Individual Income, Letters of Good Standing, Motor Vehicle Sales Tax, Neighborhood Assistance Credits, Nonprofit, Notice of Administration, Prepaid Sales Tax, Refund Specials, Responsible Officer Billings, Sales Tax Refunds, Tax Clearances, Utility Sales Tax Exemption Applications and Voluntary Compliance Program.

This division researches, develops, and implements various projects that identify non-filing, noncomplying taxpayers for the following taxes: corporate, individual, sales/use, food and beverage, county innkeepers, aircraft, fuel and withholding. All information for registration of aircraft and nonprofit organizations is conducted by this division, as well as the approval and issuance of all charity gaming licenses (e.g., raffles, bingo, door prizes, pull-tabs and punchboards). Applications for exemption from sales tax related to various types of utilities con-

sumed by taxpayers are reviewed for determination of exempt status and rate of exemption allowed. Records are researched for bankrupt individuals and businesses to identify tax liabilities and unfiled tax returns for the purpose of submitting "proof of claims" to the various bankruptcy courts. Outreach through charity gaming educational seminars and projects is conducted in an effort to promote voluntary compliance by Indiana taxpayers.

### **Controller**

Sections: Budget Analyst, Business Administration, Accounting/Counties, Cigarette Tax and Other Tobacco Products, Mail Services and Cashiers.

This division handles budgeting and purchasing for the Department under the guidance of the Controller. Other responsibilities include depositing of tax revenues, preparing appropriate reports and conducting all related banking functions. The Controller's Office administers those taxes collected by the state and returned to the county of origin. This division also handles the inventory and sale of cigarette tax stamps.

### **Criminal Investigation**

Sections: Case and Data Management, Charity Gaming Enforcement, Controlled Substance Excise Tax, Private Employment Agency Licensing, Internal Affairs, Motor Fuel Fraud, Motor Vehicle Excise Tax and Fraud Investigations/Audit.

The division's primary mission is to detect fraud and prosecute tax evaders. It is responsible for conducting investigations into alleged violations of Indiana tax laws and determining civil liabilities or presenting evidence for criminal prosecution in an effort to increase voluntary compliance.

The majority of these investigations involve the collection and failure to remit trust taxes. The division also monitors charity gaming operations throughout the state and works in conjunction with the Indiana State Police to monitor the unlawful use of dyed fuel on the highways. The division also cooperates with prosecuting attorneys throughout the state in assessing the controlled substance excise tax on those illegally possessing certain drugs and monitors and enforces the collection of the Motor Vehicle Excise Tax from Hoosiers who plate their vehicles outside Indiana. This money is returned to the county where the taxpayer legally resides. The Department conducts background investigations on all employment prospects and investigates alleged employee wrongdoing. The division is also responsible for the investigation and licensing of Private Employment Agencies.

### **Information Technology**

Sections: Administrative Services, Operations, Systems and Programming and Technical Support.

This division supports the Department's efforts and goals by creating and administering computerized tax processing systems for the other divisions of the Department. This division operates with a goal of providing tax processing systems that are increasingly easier to use; constantly improving efficiency and service to the taxpayer; and maintaining secure and confidential records.

### **Legal**

Sections: Appeals, Litigation, Inheritance Tax and Protest Review.

This division includes the Department's legal staff, which oversees the appeals process from an original tax protest to the Indiana Tax Court. This division also contains the Inheritance Tax Section, which collects tax on all taxable transfers of property resulting from the death of an Indiana resident, or a nonresident decedent, with real or tangible personal property located in Indiana.

### **Motor Carrier Services**

Sections: Customer Service Center, Motor Carrier Road and Fuel Use Taxes, International Vehicle Registration Plan, Safety & Insurance Registrations, Commercial Driver's Licensing (CDL), Oversized & Overweight Vehicle Permitting and Accounting and Fund Distribution.

This division provides all of the above tax and registration services to the motor carrier community. The division also collects and distributes revenue to other states and Canadian provinces in accordance with international agreements. Equally important is the effort to work in partnership with the Federal Motor Carrier Safety Administration and other stakeholders to promote and increase safe highway operations, resulting in fewer commercial carrier accidents and fatalities.

The Motor Carrier Services Division operates a “One-Stop Shop” for the trucking community, which is located at the Ameriplex Office Park on the southwest side of Indianapolis.

#### **Network Security and Administration**

Sections: Administration, Intra/Internet Development, Network/Server Development, Software Support, Local Area Network (LAN)/Client Support and Application Development.

This division supports the Department’s mission by providing a reliable and secure LAN/WAN (Local Area Network/Wide Area Network) environment. The division accomplishes this goal by providing client-server application development, network and LAN administration, software and desktop support, network security and computer-based training and webmaster services.

#### **Personnel**

Sections: Employment Processing and Compensation, Payroll and Benefits, Training, Labor Relations and Special Projects.

The Personnel Division addresses all issues relating to employment for the Department’s 904 employees.

#### **Public Affairs and Advocacy Office**

Public Affairs Section: Form Development and Revisions, Outreach Education, Practitioner Services, Tax Preparation Software approval, Indiana TaxFax, Web content for the Department’s Web site and media relations and publications.

This section administers tax form revision and editing, internal and external education, provides instruction to over 1,500 volunteers statewide (who help over 75,000 elderly, low income and special needs Hoosiers with free tax return preparation), approves software companies and their Indiana tax preparation software and the Indiana TaxFax form distribution system. It also coordinates content for the Department’s Web site, handles media inquiries and publicity and edits both the Department’s annual and charity gaming reports and internal and external publications for tax professionals, nonprofit organizations and employees.

The Indiana Tax Advocacy Office: hardships, offers-in-compromise, complaints and problem resolution.

This section provides an avenue for the successful resolution of taxpayer problems that have not been resolved through normal channels. Hardships, offers-in-compromise and taxpayer complaints are also researched and resolved through the Advocacy program. The Advocate serves to facilitate resolution as a final resource for the taxpayer.

#### **Quality Assurance**

This division oversees the development, testing and ongoing changes to the Department’s Returns Processing System (RPS). It also monitors system output to ensure standards of quality and to assist in problem identification.

#### **Returns Processing Center (RPC)**

Sections: A/R Payments, Batch and Edit, Unidentified Checks, Check Processing, Low Volume Data Entry, Electronic Funds Transfer, Forms Processing, Mail Open and Sort, Mail Out, Forms Order, Print Shop, Logistic Support, Data Capture, Corporate Income Tax, Individual Income Tax, System Services, Fuel Tax, Environmental Tax, Return Mail, Business Communication, LAN Support and Administration and Administrative Support.

The Returns Processing Center receives, processes and posts nearly all of the returns and payments received by the Department to taxpayer accounts in the Returns Processing System. In addition, this area works with several taxes for which the records are maintained on stand-alone PC systems, which are in turn maintained by

the Department or other agencies for which the taxes are collected. This area works with several other agencies, such as Workforce Development, Environmental Management and Department of Natural Resources, to collect various taxes and fees for those agencies.

The Returns Processing Center assures that all returns are posted in an accurate and timely manner which then allows the rest of the Department to access the data they need to complete their job functions. The Returns Processing Center works with other divisions within the Department to see that retention records are established and adhered to, prints various tax forms and related information for the Department and, when time permits, for other state agencies.

The Forms Order Section provides assistance to accountants, taxpayers, banks and anyone else who needs either a single tax return or a supply of tax forms. Taxpayer assistance to Corporate, Sales, Withholding, Fuel, Environmental, Cigarette and Alcoholic Beverage tax accounts are handled by this area. The RPC continues to search for new technology and new ways to use existing technology for faster and better ways to receive, process and post the tax returns received by Indiana Department of Revenue.

### **Tax Policy**

Sections: Policy Research, Fiscal Analysis, Technical Tax Research and Legislative Affairs.

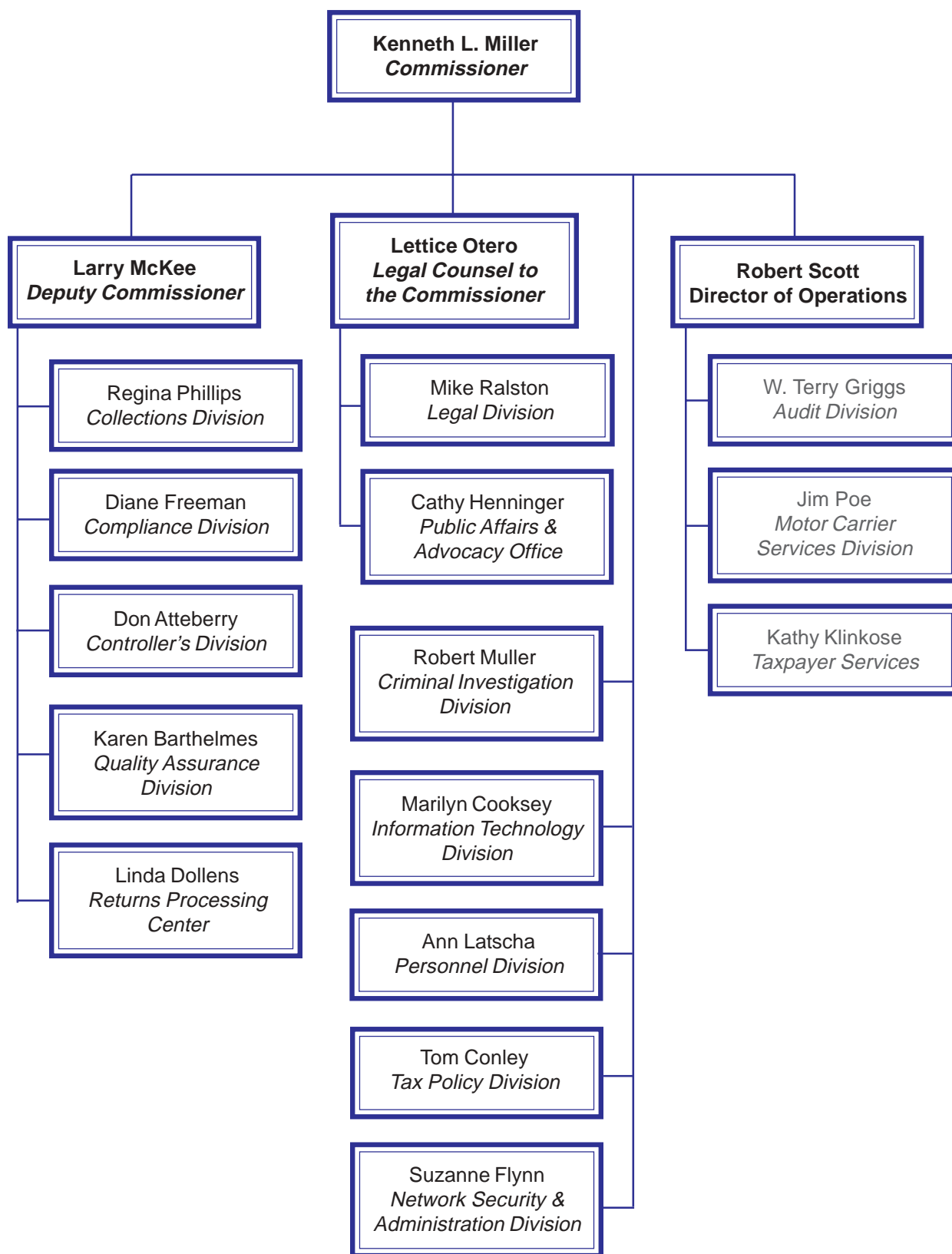
This division works primarily with legislative efforts, serving as a legislative liaison for the Indiana General Assembly. It issues rulings, policy directives and information bulletins and helps to determine the correct interpretation of the law. This division also provides tax statistics to both federal and state agencies as well as to other states.

### **Taxpayer Services**

Sections: Telephone Section, Correspondence, Research and Support and Taxpayer Assistance.

This division provides walk-in and telephone assistance to Indiana taxpayers and handles e-mail and written correspondence. It combines many direct contact functions generally involving three major tax types: individual income, sales and withholding taxes.

## DEPARTMENTAL STRUCTURE



***The Indiana Department of Revenue has 904 employees (as of 6/30/03).***

## TAX HELP INTERNET ACCESS

Access to forms, information bulletins and directives, tax publications, e-mail, I-File (the PC-Filing Program), etc.

[www.IN.gov/dor/](http://www.IN.gov/dor/)

## TAX HELP TELEPHONE NUMBERS

### AUTOMATED INFORMATION LINE

Check on the status of refunds; prerecorded tax topics; tax liability balances.

(317) 233-4018

### COLLECTION/LIABILITY INQUIRIES

(317) 232-2165

### CORPORATE TAX INFORMATION

(317) 615-2662

### INDIANA TAXFAX SYSTEM

Call from the telephone portion of your FAX machine to retrieve tax forms and information bulletins.

Available 24 hours a day.

(317) 233-2329

### INDIVIDUAL INCOME TAX INFORMATION

(317) 232-2240

### MOTOR CARRIER SERVICES

(317) 615-7200

### SALES TAX INFORMATION

(317) 233-4015

### TAX FORMS ORDER LINE

Available 24 hours a day.

(317) 615-2581

### TELEPHONE DEVICE FOR THE DEAF (TDDY)

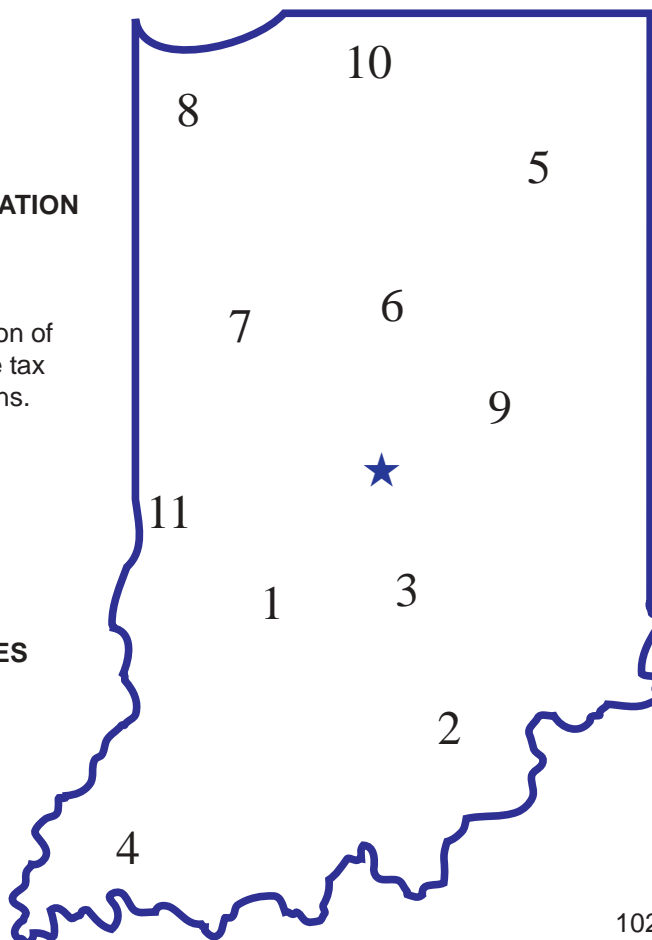
(317) 232-4952

### WITHHOLDING TAX INFORMATION

(317) 233-4016

## ★ INDIANAPOLIS (MAIN OFFICE)

Indiana Government Center  
North, Room N105  
100 N. Senate Avenue  
Indianapolis, IN 46204  
(317) 232-2240



## DISTRICT OFFICES

### 1) Bloomington

410 Landmark Avenue  
Bloomington, IN 47403  
(812) 339-1119

### 2) Clarksville

#### Physical Location

1446 Horn Street  
Clarksville, IN 47129  
(812) 282-7729

#### Mailing Address

P.O. Box 3249  
Clarksville, IN 47131-3249

### 3) Columbus

3138 N. National Road  
Columbus, IN 47201  
(812) 376-3049

### 4) Evansville

500 S. Green River Rd.  
Goodwill Building  
Suite 202  
Evansville, IN 47715  
(812) 479-9261

### 5) Fort Wayne

1415 Magnavox Way  
Suite 100  
Fort Wayne, IN 46804  
(260) 436-5663

### 6) Kokomo

117 E. Superior St.  
Kokomo, IN 46901  
(765) 457-0525

### 7) Lafayette

100 Executive Dr.  
Suite B  
Lafayette, IN 47905  
(765) 448-6626

### 8) Merrillville

8368 Louisiana Ave.  
Suite A  
Merrillville, IN 46410  
(219) 769-4267

### 9) Muncie

3640 N. Briarwood Lane  
Suite 5  
Muncie, IN 47304  
(765) 289-6196

### 10) South Bend

1025 Widener Lane, Suite B  
South Bend, IN 46614  
(574) 291-8270

### 11) Terre Haute

30 N. 8th St., 3rd Floor  
Terre Haute, IN 47807  
(812) 235-6046



## A YEAR IN REVIEW: FISCAL YEAR 2003 -- July 1, 2002 - June 30, 2003

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### ANOTHER AWARD-WINNING YEAR

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For Fiscal Year 2003, the Indiana Department of Revenue received the following honors.

For the second consecutive year, Indiana ranked first place in the 2002 Digital State Survey Taxation and Revenue category, based on the ability of taxpayers to obtain information. The Department was commended for its efforts in the delivery of e-government services to its citizens and for providing cost savings to the state.

The "Best of Breed" Award was presented to the Department for its Returns Processing System (RPS) by the Center for Digital Government. The Returns Processing System was recognized as the best in technological innovation and development.

The Department's "Electronic Express Filing" was selected as a winner in the 2003 Cost Effectiveness Through Government Awards, sponsored by the National Electronic Commerce Coordinating Council (NECCC). The Department was invited to present its award-winning project at NECCC's seventh annual conference, "Crossing Boundaries for Better Government: Moving from Ideas to Results" to be held in North Carolina in November, 2003.

The Department was named a finalist in the BKD Indiana Quality Improvement Awards competition for its barcoding initiatives. This is a local award sponsored by BKD, *Indiana Business Magazine*, Baker & Daniels and Key Bank.

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### TAXPAYER SERVICES

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#### Phase 2 of the Q-Matic Numbering System

In FY03, the Q-Matic numbering system installed in the walk-in Taxpayer Assistance Area in FY02 was integrated into the Revenue Processing System (RPS) to further improve customer service to taxpayers.

A receptionist could already place waiting taxpayers into a waiting queue by scanning the 2-D barcodes on their correspondence or by manually entering the information into the Q-Matic System. During very busy times in the walk-in area, a greeter can assist the receptionist by scanning 2-D barcodes or manually entering information by the use of a palm pilot.

Once information from taxpayers is collected, there is an integration of Q-Matic data into the Returns Processing System. The integration allows tax analysts to have pertinent account information for review prior to taxpayers being seated at their cubicles.

This system allows the Department to determine how many taxpayers have been assisted by category and to analyze statistics on the types of service rendered. Also, the system provides an automated ticketing system for taxpayers.

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### TAXFAX

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The TaxFax system handled form orders for 7,900 callers needing forms and/or instruction booklets. This is in addition to e-mail form requests and phone orders. This technology is seeing a reduction in usage as more taxpayers utilize the Revenue web site, [www.in.gov/dor](http://www.in.gov/dor).

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## **PERSONNEL**

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### **Employment Processing and Compensation**

During Fiscal Year 2003 (July 1, 2002 - June 30, 2003), the Department processed 75 new hires, 94 promotions, eight demotions, four job reclassifications, 54 lateral transfers and 80 resignations/retirements.

### **Payroll and Benefits**

Second Chance Taxsaver Option - Employees were given a second chance to change their Taxsaver option if they were not currently enrolled.

On-Line Open Enrollment - December Open Enrollment changes to Health, Dental, and Vision were performed on-line through State Personnel's PeopleSoft® Program. The May Open Enrollment for Life Insurance was also performed on-line.

Early Retirement Incentive Program - The Department had 40 employees who took advantage of the Early Retirement Incentive Program. In accordance with State Personnel guidelines, these employees were offered 20 percent additional years of service plus \$300 for each year of total years of service. These additional monies will be paid in equal installments in July 2003, January 2004 and July 2004.

Voluntary Furlough Program - The Department had 173 employees who contributed 25,903.75 hours of furlough time totaling \$365,486.34 in salary. This program was offered to assist the state during its budgetary crisis, since Voluntary Furlough is time off without pay.

### **Training**

During FY03, the Training Team presented 91 classes to a total of 866 participants.

Sessions were offered in the following topics: ABC's of Discrimination, Cultural Diversity, Customer Service, Myers-Briggs Type Indicator/Interpersonal Dynamics, New Employee Orientation 101, New Employee Orientation 102, New Employee Orientation for Intermittent Employees, Performance Appraisal, RPS/AR Computer Training, Sexual Harassment Prevention and Violence in the Workplace.

New classes or newly-revised classes included: ABC's of Discrimination, New Employee Orientation 102 and Sexual Harassment Prevention.

### **Labor Relations**

Meetings were held on a regular basis with representatives from AFSCME and UNITY regarding employee relations.

The AFSCME Labor/Management Committee met quarterly and continues to pursue the salary incentive package for Field Auditors.

Health and Safety - The Department has 14 floor wardens who are responsible for evacuating assigned areas. Training has been conducted on evacuation and severe weather procedures.

### **Special Projects**

State Employee Community Campaign - Employees generously contributed \$44,136.17 and received a bronze per capita award. Department activities included an annual Silent Auction and Book Sale. In addition, Taxpayer Services Division held an Ice Cream Social and a Hot Dog/Coney Day. The Returns Processing Center held several fundraising events including a Bake and Book Sale and a Chili and Hot Dog Sale.

Bring Your Child To Work Day - Approximately 81 children ranging in age from nine to 15 job shadowed parents or other employees for the day.

State Blood Drive - The Department, in conjunction with the Indiana Blood Center, annually sponsors four blood drives per year for all state employees. This year, 343 state employees donated their blood, some as many as four times.

## 2003 LEGISLATIVE SUMMARY -- NEW AND AMENDED STATUTES

### LEGISLATION PASSED BY THE 2003 INDIANA GENERAL ASSEMBLY

(Legislation is listed by tax type on Pages 16-32)

#### Legislation listed by bill number

HB 1001 – IC 4-4-31; IC 4-33-13-1.5; NONCODE SECTION 48; IC 6-1.1-12.2; IC 6-1.1-12.3; IC 6-2.5-4-4.5; IC 6-2.5-6-15; IC 6-3.1-4-6; IC 6-3.1-19-3; IC 6-3.1-26; IC 6-3.1-27; IC 6-3.1-28; IC 6-6-6.5-9; IC 6-6-6.5-12; IC 36-7-13-12.1. Provides that riverboats that implemented flexible scheduling will calculate the graduated tax liability from June 30, 2002 instead of from the time that the riverboat actually implemented the flexible scheduling. Provides that the adjusted payment will be made in two equal installments on July 1, 2003 and July 1, 2004.

Provides that rooms furnished on a complimentary basis by an innkeeper shall require the innkeeper to remit the sales tax based on the gross retail income that would be received if the room had been rented on that date. Requires the innkeeper to report monthly to the Department on the number of rooms rented during the period, and the total amount of sales tax remitted with respect to those lodgings. The innkeeper must also report on the number of complimentary rooms rented and the amount of sales tax remitted.

Extends the effective date of the research expense credit through December 31, 2013, instead of December 31, 2004.

Provides that pass-through entities are eligible for the Community Revitalization Enhancement District Tax Credit.

Creates the Hoosier Business Investment Tax Credit to be administered by the EDGE Board. Provides a credit of thirty percent (30%) of the qualified investment made by a taxpayer. A qualified investment includes the purchase of new manufacturing equipment, computers, modernization of existing equipment and infrastructure improvements.

Creates a tax credit of \$1.00 per gallon of biodiesel produced in Indiana and used to produce blended biodiesel. Provides a tax credit of \$.02 per gallon of blended biodiesel produced in Indiana. Provides a tax credit of \$.01 per gallon of blended biodiesel sold through a metered pump at a service station.

Provides a tax credit of \$.125 per gallon of ethanol produced at an Indiana facility.

Provides that all first- and second-class cities can create a Community Revitalization Enhancement District. The district will receive 75% of any incremental sales or income tax generated in the district. The city is required to pledge \$250,000 for infrastructure improvements.

Provides funding of industrial development projects in distressed counties. Provides for incremental sales and income tax funding for the project area are not to exceed \$500,000.

Provides that aircraft used to transport people or property between a qualifying medium hub airport and at least two qualifying underserved airports is entitled to a property tax deduction for those aircraft. The aircraft are not exempt from the aircraft excise tax.

Provides that aircraft operated by a business entity that has its corporate headquarters in Indiana are exempt from the property tax.

HB 1018 – IC 6-9-5, SECTION 2 NON CODE, (EFFECTIVE JULY 1, 2003). Repeals the Knox County Innkeepers' Tax, and reenacts the tax under IC 6-9-18, which is the uniform innkeepers' tax statute.

HB 1155 – IC 6-3.5-1.1-2; IC 6-3.5-1.1-3.3; IC 6-3.5-1.1-10; IC 6-3.5-1.1-11; AND IC 6-3.5-7-5, (EFFECTIVE UPON PASSAGE). Provides that Clay County may impose an additional county adjusted gross income tax at a

rate of twenty-five hundredths percent (0.25%) to finance a county jail and related buildings as the result of a failure to meet federal jail standards.

Provides that the maximum CAGIT and CEDIT rates may not exceed one and one-half percent (1.5%) for Clay County if the additional rate for the county jail is adopted.

Provides that if the county council adopts an ordinance to impose the additional CAGIT rate before June 1, 2003, the tax will take effect on July 1, 2003. If the ordinance is adopted after May 31, 2003 and before January 1, 2004, the tax will take effect on January 1, 2004. If the tax takes effect on January 1, 2004, the first distribution reflecting the increased CAGIT rate will be made to the county treasurer on November 1, 2004.

HB 1167 – IC 6-2.5-6-13; IC 6-3-3-5; IC 6-3-3-5.1; IC 6-3-3-10; IC 6-3-4-4.1; IC 6-3.1-11-22; IC 6-3.1-18-8; IC 6-3.5-1.1-2.9; IC 6-3.5-1.1-3.6; IC 6-3.5-1.1-10; IC 6-3.5-6-17; IC 6-3.5-6-17.6; IC 6-3.5-6-18; IC 6-3.5-7-15; IC 6-3.5-7-26; IC 6-5.5-2-7; AND IC 6-5.5-9-3, (EFFECTIVE UPON PASSAGE). This bill adopts technical changes throughout various provisions of the Indiana Code.

HB 1368 – IC 6-4.1-5-10 (EFFECTIVE JULY 1, 2003). Provides that a court order describing the fair market value of an estate is confidential.

HB 1423 – NONCODE (EFFECTIVE UPON PASSAGE). Provides that the shareholders of an S Corporation that claimed the Prison Investment Credit for the period 1998 through 2001 will be allowed to claim the credit.

HB 1556 – IC 4-32-6; IC 4-32-8; IC 4-32-9; IC 4-32-13; AND IC 4-32-15, (EFFECTIVE UPON PASSAGE AND JULY 1, 2003). Provides that the Administrative Orders and Procedures Act applies to a protest or hearing related to charitable gaming. Requires any radio advertisement for a charity gaming event to mention the name of the qualified organization and that the license number is on file.

Amends various sections concerning the retention of records if charity gaming supplies are destroyed by a distributor or qualified organization. Requires a manufacturer and distributor to report quarterly to the Department on the sale of supplies, devices and equipment.

Clarifies that the gaming card excise tax is imposed on the distributor and it is based on the price paid by the qualified organization for supplies.

HB 1683 – IC 8-9-11-4 (EFFECTIVE JULY 1, 2003). Permits the Motor Carrier Section of the Department to adopt rules concerning the transportation of railroad employees by contract carriers.

HB 1708 – IC 6-2.5-5-8 (EFFECTIVE JULY 1, 2003). Provides that the only new vehicles exempt from the sales tax as a purchase for resale are when a franchise dealer sells a vehicle to another franchise dealer if the vehicle purchaser has a franchise for the same vehicle trade name.

A vehicle purchased by a person who is regularly engaged in the business of rental or leasing vehicles can continue to purchase the new vehicle exempt from the sales tax.

HB 1714 – IC 6-3.1-23-1.5; IC 6-3.1-23-3; IC 6-3.1-23-3.5; IC 6-3.1-23-5; IC 6-3.1-23-11; IC 6-3.1-23-12; IC 6-3.1-23-13; IC 6-3.1-23-16; AND NONCODE, (EFFECTIVE JANUARY 1, 2004). Makes the Voluntary Remediation Tax Credit available to a taxpayer irrespective of whether the taxpayer is participating in the state Voluntary Remediation Program, and irrespective of whether the property is located in a Brownfield Revitalization Zone. Provides that the credit does not apply to the extent that the taxpayer uses state financial assistance for the remediation.

Allows a carryback of a credit to the immediately preceding year. Extends the credit for taxable years through 2005.

HB 1728 – IC 6-3-1-3.5; IC 6-3-1-11; IC 6-3-1-33; IC 6-5.5-1-2; IC 6-5.5-1-20; AND NONCODE SECTION 6, (EFFECTIVE JANUARY 1, 2002 AND JANUARY 1, 2003, RETROACTIVE). Updates the Indiana Code to correspond to the definition of Federal Adjusted Gross Income in all areas except for the Bonus Depreciation

Deduction. The depreciation deduction will be calculated in the same manner that it had been calculated prior to 2001. All other provisions including the Net Operating Loss Carryback, the Educator Expense Deduction, Clean Fuel Vehicle Deduction, and Foster Care Deduction have been incorporated for taxable years beginning after December 31, 2002.

Requires the Department to issue a Commissioner's Directive no later than August 1, 2003 explaining how the provisions for not calculating the Accelerated Depreciation Deduction must be implemented by the taxpayer.

HB 1738 – IC 7.1-3-18.5 (EFFECTIVE JULY 1, 2003). Provides that the Alcohol and Tobacco Commission shall issue a Tobacco Sales Certificate to any person selling cigarettes at retail. The fee is fifty dollars (\$50) per year per location.

HB 1788 – IC 6-7-1-17; IC 6-7-1-18; IC 6-7-2-11; IC 24-3-2-2; IC 24-3-2-4.7; IC 24-3-3-13; AND IC 24-3-5.4, (EFFECTIVE JULY 1, 2003). Provides that a cigarette distributor that has been in good standing with the Department for the last five years, is not required to post a bond or letter of credit. Requires every distributor to include with each delivery of cigarettes an invoice showing complete details of the transaction. The retailer is required to retain the invoice for no less than two weeks. The retailer may request a duplicate invoice from the distributor.

Transfers the authority to enforce the Cigarette Fair Trade Statute from the Department to the Alcohol and Tobacco Commission (ATC). Requires a retailer to produce an invoice proving that the retailer purchased the cigarettes from a distributor that holds a valid Registration Certificate. Gives the Department and the ATC concurrent jurisdiction over retailers and the requirement to possess an invoice from the distributor.

Not later than April 30 of each year, a tobacco product manufacturer shall certify to the Department and the Attorney General that the manufacturer is a participating manufacturer or is in compliance with the Qualified Escrow Fund provisions. The certification must include a listing of all the brand families of the manufacturer, and must report any change in the list within thirty (30) days. A nonparticipating manufacturer must also include a list of the number of units of each brand sold in Indiana during the calendar year before the report. They must also certify that they are registered to do business in Indiana or has an appointed agent for service of process. Prohibits a person from stamping or possessing for sale any brand family that is not on the master list of the attorney general.

Requires all distributors to file a quarterly report with the Department and the Attorney General a list by brand family of the total number of cigarettes that the distributor affixed stamps to. The Department can revoke or suspend the license of any distributor that affixes a stamp or offers to sell cigarettes that are not listed in the master list.

Requires that the first list submitted by manufacturers listing brand families are to be completed by August 15, 2003.

HB 1791 – IC 24-3-5-6; AND IC 24-3-5-7, (EFFECTIVE JULY 1, 2003). Requires a merchant that is shipping tobacco products as part of a delivery sale to provide the Department with a statement containing the merchant's name, address, principal place of business, and each place of business in Indiana. Requires that the merchant shall provide no later than the tenth of each month for the previous month, a copy of each invoice for each sale to a customer in Indiana. The invoice must include the name and address of the customer, the brand name of the tobacco products delivered, and the quantity of the tobacco products that were delivered.

Requires the merchant to collect the Cigarette Tax on a delivery sale, or place a legible notice on the outside of the shipping container that the merchant has reported to the Department as required by federal law the name and address of the purchaser.

HB 1811 – IC 4-4-8-1; IC 5-17-1-11; IC 5-22-16-4; IC 6-2.5-4-14; IC 6-2.5-8-10; IC 6-3-4-6; IC 6-3-4-8.1; IC 6-3.1-5; IC 6-6-6.5-19; IC 6-8.1-3-12; IC 6-8.1-5-2.5; IC 6-8.1-6-5; IC 6-8.1-7-1; IC 6-8.1-10-11; AND IC 6-9-34, (EFFECTIVE JULY 1, 2003). Eliminates a reference to a repealed Income Tax Credit. Repeals the Investment Tax Credit that is obsolete. Repeals the provision that requires a taxpayer to report on their annual income tax

return information concerning motor vehicles that are owned or leased by the taxpayer.

Requires any entity that desires to sell personal property or services to the state to obtain a clearance from the Department showing that they are not delinquent for sales tax liabilities, and that they have registered with the Department to collect sales tax. Also requires the entity to collect sales tax on any transaction even if the taxpayer is not located in Indiana.

Provides that a taxpayer is required to file an amended income tax return if there is a federal modification to the taxpayer's adjusted gross income. The return must be filed within one hundred twenty (120) days of the modification.

Provides that if a taxpayer's withholding tax is remitted by electronic funds transfer, the taxpayer is no longer required to file a quarterly report.

Clarifies that a person that is delinquent in registering an aircraft is subject to penalty and interest for the late payment.

Gives a county treasurer the same authority to audit and investigate any taxpayer that is subject to the innkeepers' tax if the county is collecting the tax.

If the Department determines that a proposed assessment includes an individual that is not responsible for a tax liability, a new assessment can be made naming only the person that is responsible for the tax liability. Provides that the Statute of Limitations does not apply if the subsequent notice is issued.

Enacts an Entertainment Facility Tax for a facility in Hamilton County. The tax is imposed on the admission ticket at \$.50 per ticket and is collected by the county treasurer.

HB 1815 – IC 6-2.5-1; IC 6-2.5-4; IC 6-2.5-5; IC 6-2.5-6-9; IC 6-2.5-12; IC 6-2.5-13; IC 6-9; AND NONCODE (EFFECTIVE UPON PASSAGE, AND JANUARY 1, 2004). Adds or amends sales tax definitions concerning gross retail income, alcoholic beverages, candy, computers and computer software, dietary supplements, drugs, durable medical equipment, food and food ingredients, mobility enhancing equipment, prescriptions, prewritten computer software, prosthetic devices, and soft drinks.

Provides technical changes in the exemptions to coincide with the new or amended definitions.

Clarifies the procedures for claiming a Bad Debt Deduction from the sales tax. The provisions include that the federal bad debt deduction shall be adjusted to exclude financing charges or interest, sales or use tax charged on the purchase price, uncollectible amounts on property that remain in possession of the seller until the full purchase price is paid, expenses incurred in collecting any debt, and repossessed property.

Provides for the taxing situs of nonmobile telecommunications and general sourcing rules. Clarifies the definition of food subject to a local food and beverage tax.

Requires the Department to adopt the initial rules and prescribe the initial forms to implement this act by December 1, 2003. The rules may be adopted in the same manner that emergency rules are adopted.

HB 1902 – IC 4-33-12-1 (EFFECTIVE JULY 1, 2003). Among other things, it provides that the admissions tax for a riverboat in Orange County is four dollars (\$4.00).

SB 67 – IC 6-2.5-8-12 (EFFECTIVE JULY 1, 2003). Provides that a person is not required to register as a retail merchant if the sole contact with Indiana is a contract with a call center that provides telephone call services to the person. Any property of the person located on the property of the call center does not create nexus as long as the property is not held for sale or shipment in response to an order received by the call center.



SB 257 – IC 5-26-6; AND IC 6-6-2.5-70 (EFFECTIVE JULY 1, 2003). Creates the state agency Public Safety Committee for Public Safety Communications. Provides that the Department will have one representative on the committee.

Amends the Special Fuel Tax to change a cross-reference because of the recodification of Title 10 of the Indiana Code.

SB 417 – IC 6-3.1-25.2 (EFFECTIVE JANUARY 1, 2004). Creates a Coal Combustion Product Tax Credit for manufacturers that manufacture recycled components consisting of at least 15% coal combustion waste generated in Indiana. The credit is equal to \$2.00 per ton of coal combustion products used by the manufacturer in the taxable year. The total credits allowed may not exceed \$2,000,000 for all taxpayers in a fiscal year. The tax credit cannot be refunded or carried back to prior years. A taxpayer that claims the property tax deduction under IC 6-1.1-44 may not obtain this tax credit.

Requires the Department to keep a list of the name of each manufacturer, and the amount of credit claimed by the manufacturer and provide the list to the Center for Coal Technology Research.

SB 422 – IC 6-2.3; IC 6-2.5; IC 6-3; IC 6-3.1; IC 6-5.5; AND NONCODE, (EFFECTIVE RETROACTIVE JULY 1, 2002, RETROACTIVE JANUARY 1, 2003, AND JANUARY 1, 2004). Corrects an erroneous cross reference and eliminates several references to the Gross Income Tax that have been repealed. Provides that the penalty for underpayment of estimated tax for the Utility Receipts Tax will be calculated separately from any underpayment penalty for the Adjusted Gross Income Tax.

Provides that an employee that lives and works in an Enterprise Zone is eligible for the employee tax deduction if the employer is a pass-through entity. Clarifies that a lottery payment made after June 30, 2002 for a lottery drawing held before July 1, 2002 is exempt from the Adjusted Gross Income Tax.

Provides that a fiscal year utility receipts taxpayer will prorate the \$1,000 taxpayer deduction and the resource recovery system depreciation deduction for the period of January 1, 2003 until the end of the taxpayer's fiscal year.

Eliminates the requirement that a fiscal year taxpayer will file a final Supplemental Net Income Tax (SNIT) return on April 15, 2002. Provides that the return is due at the same time as the Adjusted Gross Income Tax return. The SNIT will still be repealed effective December 31, 2002, and the taxpayer will pay a proportional share of SNIT calculated from the annual adjusted gross income, and then prorated based on the number of days in the taxpayer's taxable year for the period ending before January 1, 2003. Gives the Department authority to grant automatic extensions of time to file the return.

Provides that fiscal year taxpayers will file their Final Gross Income Tax returns at the same time that they file their Adjusted Gross Income Tax returns. Provides that taxpayers will pay the greater of the gross or the adjusted gross for the period ending on December 31, 2002. Provides a method to prorate the amount of Adjusted Gross Income Tax due for the period before January 1, 2003 and also for the period after December 31, 2002.

Provides that the \$1,000 taxpayer deduction and the Resource Recovery System Tax Deduction will be prorated for a fiscal year gross income taxpayer.

Provides that the Department may prescribe forms to implement this act and may grant automatic extensions of time to file returns due before April 16, 2003.

SB 446 – IC 9-13-2-171; IC 9-13-2-181; IC 9-20-14-6; IC 9-20-15-6; IC 9-20-15-7; IC 9-21-5-5; IC 9-29-6-7; AND IC 9-29-6-9, (EFFECTIVE JULY 1, 2003). Provides that a mobile home for a special tractor-mobile home rig may not exceed eighty-five (85) feet. Provides that the combined length of a tractor-mobile home rig may not exceed one hundred ten (110) feet, and may not be higher than fourteen (14) feet.

Provides that a person who is not a mobile home retail dealer may purchase a quarterly permit for unlimited trips to move a tractor-mobile home rig for two hundred fifty dollars (\$250), or an annual permit for one thousand

dollars (\$1,000). A permit to move a special tractor-mobile home rig may be purchased for a quarterly period at a cost of five hundred dollars (\$500), or annually for two thousand dollars (\$2,000).

Provides that if a person moves a tractor-mobile home rig on a route that is restricted or prohibited, their quarterly or annual permit may be revoked. If the permit is revoked, they may not obtain a new quarterly or annual permit for ninety (90) days; however, the person may obtain a single trip permit until the person is eligible to obtain a new quarterly or annual permit.

SB 474 – IC 8-2.1-24-18; IC 9-24-15-1; IC 9-30-5-9.5; IC 9-30-9-0.5; AND IC 9-30-10-9, (EFFECTIVE JULY 1, 2003). Updates the Indiana Code to correspond to federal law and regulations concerning motor carrier safety.

Also provides that effective July 1, 2005, people that hold a commercial driver's license will not be eligible for probationary and restricted driving privileges if they have been convicted of certain offenses mostly related to alcohol and controlled substances.

SB 494 – IC 6-2.3-4-3 (EFFECTIVE JANUARY 1, 2003, RETROACTIVE). Clarifies that the gross retail receipts received by a political subdivision for sewer and sewage services are exempt from the utility receipts tax.

SB 504 – IC 24-3-5.2-6; AND IC 24-3-5.2-7, (EFFECTIVE JULY 1, 2003). Requires that a merchant who is shipping cigarettes as part of a delivery sale shall provide the Department with the merchant's name, address, principal place of business, and each place of business in Indiana.

Provides that a merchant who mails or ships cigarettes as part of a delivery sale shall no later than the tenth day of the month, send the Department a copy of each invoice for each delivery to a customer in Indiana for the previous month. The invoice must have the name and address of the customer, the brand name of the cigarettes, and the quantity of cigarettes shipped to the customer. A merchant who complies with the Federal Jenkins Act is considered to have complied with the notification requirements.

Requires a merchant to collect and pay all applicable cigarette taxes, or place a notice on the shipping container that the purchaser's name has been sent to the Department. The merchant is also required to calculate the amount of tax that is owed on the shipment, and provide that information to the customer.

SB 508 – IC 8-2.1-24-18 (EFFECTIVE JULY 1, 2003). Permits a medical waiver upon furnishing a medical certificate for an insulin dependent diabetic, who applies for or holds a commercial driver's license, and who is employed by a private carrier of property operated only in intrastate commerce.

### **Other Pertinent Legislation**

SB 75 – IC 5-14-6 (EFFECTIVE JULY 1, 2003). Provides that any report submitted to every member of the general assembly by a state agency must be submitted to the executive director of the legislative services agency in an electronic format. Also provides that the state agency shall post a copy of the report on the Internet, and send a copy to each legislator's electronic mail address.

## **Legislation by Tax Type**

### **IC 4-32 CHARITY GAMING**

IC 4-32-6-16.5 (EFFECTIVE JULY 1, 2003). Defines a marketing sheet as additional information published about a wagering game that describes winnings.

IC 4-32-8-5 (EFFECTIVE UPON PASSAGE). Provides that the administrative orders and procedures act applies to protests and hearings.

IC 4-32-9-35 (EFFECTIVE JULY 1, 2003). Provides that if an employee of a manufacturer or distributor is a member of a civic or religious organization that holds a charity gaming license, the employee's membership may not be construed as an affiliation with the organization's charity gaming operations.



IC 4-32-9-36 (EFFECTIVE JULY 1, 2003). Provides that radio advertising must announce the name of the organization conducting the event and that the organization's license number is on file.

IC 4-32-13-6 (EFFECTIVE JULY 1, 2003). Provides that a marketing sheet must be maintained for six (6) years or until the end of an audit in which the marketing sheet and similar records are audited.

IC 4-32-13-7 (EFFECTIVE JULY 1, 2003). Provides that a manufacturer or distributor must provide the Department with a list of any bingo supplies, punchboards, or tip boards that are destroyed, discontinued, or rendered unusable. The list must contain the quantity, serial number and description of any items destroyed.

IC 4-32-13-8 (EFFECTIVE JULY 1, 2003). Requires a manufacturer or distributor to produce any records requested by the Department within seventy-two (72) hours.

IC 4-32-13-9 (EFFECTIVE JULY 1, 2003). Requires a manufacturer or distributor to file a quarterly report listing their sales of supplies, devices, and equipment.

IC 4-32-15-1 (EFFECTIVE JULY 1, 2003). Clarifies that the gaming card excise tax is ten percent (10%) of the price paid by the qualified organization for the purchase of pull tabs, punchboards and tip boards.

IC 4-32-15-2 (EFFECTIVE JULY 1, 2003). Clarifies that the gaming card excise tax is imposed at the time the licensed entity distributes the supplies in Indiana.

### **IC 4-33 RIVERBOAT GAMING**

IC 4-33-12-1 (EFFECTIVE JULY 1, 2003). Provides that the riverboat admissions tax is four dollars (\$4.00) for each person admitted to the riverboat in Orange County.

IC 4-33-13-1.5 (EFFECTIVE JULY 1, 2002, RETROACTIVE). Provides that if a riverboat implements flexible scheduling during a fiscal year, the gaming tax will be calculated as though flexible scheduling had been in effect since July 1 of the fiscal year.

Provides that if a riverboat eliminates flexible scheduling during a fiscal year, the gaming tax will still be calculated as though the flexible scheduling is still in effect until the end of the fiscal year.

### **IC 6-2.3 UTILITY RECEIPTS TAX**

IC 6-2.3-1-12 (EFFECTIVE JANUARY 1, 2003, RETROACTIVE). Corrects an erroneous reference to the definition of a political subdivision.

IC 6-2.3-4-3 (EFFECTIVE JANUARY 1, 2003, RETROACTIVE). Clarifies that gross receipts received by a political subdivision for sewer and sewage service are exempt from the utility receipts tax.

IC 6-2.3-6-1 (EFFECTIVE JANUARY 1, 2003, RETROACTIVE). Provides that estimated utility receipts tax payments must equal or exceed twenty (20%) of the final tax liability for the taxable year, or twenty-five percent (25%) of the tax liability for the previous year to avoid a penalty for underpayment of estimated taxes.

### **IC 6-2.5 SALES AND USE TAX**

IC 6-2.5-1-5 (EFFECTIVE JANUARY 1, 2004). Clarifies that delivery and installation charges are included in gross retail income. Provides that coupons or other discounts allowed that are not reimbursed by a third party are not part of gross retail income.

IC 6-2.5-1-11 (EFFECTIVE JANUARY 1, 2004). Defines an alcoholic beverage as a beverage that contains one-half of one percent (0.5%) or more alcohol by volume.

IC 6-2.5-1-12 (EFFECTIVE JANUARY 1, 2004). Defines candy to be a preparation of sugar, honey, or other natural or artificial sweeteners in combination with chocolate, fruits, nuts or other ingredients or flavorings in the form of bars, drops, or pieces. The term does not include items containing flour or items requiring refrigeration.

IC 6-2.5-1-13; IC 6-2.5-1-14; AND IC 6-2.5-1-15, (EFFECTIVE JANUARY 1, 2004). Defines the terms computer, computer software, and delivered electronically.

IC 6-2.5-1-16 (EFFECTIVE JANUARY 1, 2004). Defines a dietary supplement as a product that is intended to supplement the diet, contains a vitamin or other mineral, is intended for oral ingestion, and is required to be labeled as a dietary supplement, identifiable by the "Supplemental Facts" box found on the label as required under 21 CFR 101.36.

IC 6-2.5-1-17 (EFFECTIVE JANUARY 1, 2004). Defines a drug as a substance recognized in the official United States Pharmacopoeia, intended for use in the diagnosis, cure, mitigation, treatment or prevention of disease. The term does not include food and food ingredients, dietary supplements, or alcoholic beverages.

IC 6-2.5-1-18 (EFFECTIVE JANUARY 1, 2004) Defines durable medical equipment to mean equipment including repair and replacement parts for equipment that can stand repeated use, is used to serve a medical purpose, generally is not useful to a person in the absence of illness or injury, and is not worn in or on the body.

IC 6-2.5-1-20 (EFFECTIVE JANUARY 1, 2004). Defines food and food ingredients as substances sold for ingestion or chewing by humans, that are consumed for their taste or nutritional value. The term does not include alcoholic beverages, candy, dietary supplements, or soft drinks.

IC 6-2.5-1-21 (EFFECTIVE JANUARY 1, 2004). Defines the terms lease and rental to correspond to current practices of the Department.

IC 6-2.5-1-22 (EFFECTIVE JANUARY 1, 2004). Defines mobility enhancing equipment as equipment primarily used to provide or increase the ability to move from one place to another and is not generally used by persons with normal mobility. It does not include a motor vehicle or equipment on a motor vehicle.

IC 6-2.5-1-23 (EFFECTIVE JANUARY 1, 2004). Defines a prescription as an order or formula issued by a licensed practitioner.

IC 6-2.5-1-24 (EFFECTIVE JANUARY 1, 2004). Defines prewritten computer software to mean computer software that is not designed and developed by the author or other creator to the specifications of a specific purchaser. Modifications to prewritten computer software where there is a reasonably separately stated charge for modification or enhancement, the modification or enhancement is not prewritten computer software.

IC 6-2.5-1-25 (EFFECTIVE JANUARY 1, 2004). Defines a prosthetic device as a replacement, corrective, or supportive device worn on or in the body to artificially replace a missing part of the body, prevent or correct physical deformity, or support a weak or deformed part of the body.

IC 6-2.5-1-26 (EFFECTIVE JANUARY 1, 2004). Defines soft drinks as nonalcoholic beverages that contain natural or artificial sweeteners. The term does not include beverages that contain milk or milk products, soy, rice, or similar milk substitutes, or greater than fifty percent (50%) of vegetable or fruit juice by volume.

IC 6-2.5-1-27 (EFFECTIVE JANUARY 1, 2004). Defines tangible personal property as something that can be seen, weighed, measured, felt, or touched or in any other manner is perceptible to the senses. The term includes electricity, gas, water, steam, and prewritten computer software.

IC 6-2.5-4-1 (EFFECTIVE JANUARY 1, 2004). Includes delivery charges in gross retail income and charges by the seller for the preparation and delivery of the property to a location designated by the purchaser, including but not limited to transportation, shipping, postage, handling, crating, and packing.

IC 6-2.5-4-4.5 (EFFECTIVE JULY 1, 2003). Provides that if a retail merchant furnishes rooms or lodgings to another person on a complimentary basis, the retail merchant shall compute gross retail income as being equal to the gross retail income received from renting a comparable room on the date the complimentary room is provided. Requires the sales tax to be imposed on the value of the complimentary room.

IC 6-2.5-4-10 (EFFECTIVE JANUARY 1, 2004) Provides that subleasing is not classified as the rental or leasing of tangible personal property.

IC 6-2.5-4-14 (EFFECTIVE JULY 1, 2003). Adds a section to provide that the Department of Administration and each purchasing agent for a state educational institution shall provide the Department with a list of every person who desires to enter into a contract to sell property or services to the state. The Department will notify the appropriate purchasing agent if the person is not registered as a retail merchant or is delinquent in remitting sales tax due to the Department.

IC 6-2.5-5-1 (EFFECTIVE JANUARY 1, 2004). Provides that the agricultural exemption for the production of food includes the production of food ingredients.

IC 6-2.5-5-8 (EFFECTIVE JULY 1, 2003). Provides that a new motor vehicle is exempt from the sales tax for purposes of resale if the sale is from one franchise dealer to another dealer with the same franchise for the vehicle trade name. Also exempts transactions when the franchisee is purchasing directly from the manufacturer, or the vehicle is a new vehicle purchased for rental or leasing in the ordinary course of the person's business.

IC 6-2.5-5-18 (EFFECTIVE JANUARY 1, 2004). Clarifies that the purchase of durable medical equipment and prosthetic devices are exempt from the sales tax, as well as the rental of durable medical equipment and other medical supplies.

IC 6-2.5-5-19 (EFFECTIVE JANUARY 1, 2004). Provides a technical change to the exemption for legend and non-legend drugs.

IC 6-2.5-5-20 (EFFECTIVE JANUARY 1, 2004). Provides that food and food items are exempt from the sales tax if items are sold without eating utensils provided by the seller and are sold by a seller whose primary NAICS classification is food manufacturing, except for bakeries. Food sold in an unheated state by weight or volume as a single item, or bakery items including bread, rolls, buns, biscuits, bagels, croissants, pastries, donuts, Danish, cakes, tortes, pies, tarts, muffins, bars, cookies, and tortillas are also exempt.

Items that are taxable include: candy, alcoholic beverages, soft drinks, food sold through a vending machine, food sold in a heated state or heated by the seller, or two or more food ingredients mixed or combined by the seller for sale as a single item, and food sold with eating utensils provided by the seller.

IC 6-2.5-6-9 (EFFECTIVE JANUARY 1, 2004). Makes changes in the bad debt deduction for sales tax so that any deduction taken does not include interest and the amount of the deduction shall be determined in the manner provided in Section 166 of the Internal Revenue Code. The deduction excludes financing charges or interest, sales or use taxes charged on the purchase price, uncollectible amounts on property that remain in the possession of the seller until the full purchase price is paid, expenses incurred in attempting to collect any bad debt, and the value of repossessed property.

The deduction is claimed during the period for which the receivable is written off. A claimant who is not required to file a federal income tax return may deduct an uncollectible receivable on a return filed for the period in which the receivable is written off in the claimant's records.

Provides that if the amount of the deduction exceeds the retail merchant's tax liability for the reporting period, the merchant may file a refund claim under IC 6-8.1-9. For purposes of reporting a payment received on an uncollectible receivable, any payments made shall be applied proportionally to the taxable price of the property and the sales tax thereon, then to interest, service charges, and any other charges.

IC 6-2.5-6-13 (EFFECTIVE JANUARY 1, 2003, RETROACTIVE). Eliminates a reference to the gross income tax, which has been repealed.

IC 6-2.5-6-15 (EFFECTIVE JULY 1, 2003). Provides that a retail merchant that provides complimentary hotel rooms shall report to the Department at the same time as filing their sales tax return, a report listing the number of rooms rented during the period and the total amount of sales tax remitted for those rooms. The retail merchant must also report the number of complimentary rooms provided during the period, and the amount of sales tax remitted with respect to those rooms.

IC 6-2.5-8-10 (EFFECTIVE JULY 1, 2003). Provides that any person wishing to contract to provide property or services to the state consents to be treated as if the person has a place of business in Indiana, including the requirement that the person collect the sales tax as required under the statute.

IC 6-2.5-8-12 (EFFECTIVE JULY 1, 2003). Adds a new section that provides that a person that has contracted with a call center is not required to register as a retail merchant or collect the sales tax if the person who contracts does not have any property held for sale, shipment or distribution in response to orders received by the call center. Provides that the call center is not considered to be in any way a representative, agent, salesman, canvasser, or a solicitor for the person.

IC 6-2.5-12-10 (EFFECTIVE JANUARY 1, 2004). Defines post paid calling service as payment on a call by call basis through the use of a credit card, debit card, or by charge made to a telephone number that is not associated with the origination or termination of the telecommunications service.

IC 6-2.5-12-11 (EFFECTIVE JANUARY 1, 2004). Defines prepaid calling service as the right to access telecommunications services, which must be paid for in advance, and with the use of an access number and that is sold in predetermined units or dollars.

IC 6-2.5-12-14 (EFFECTIVE JANUARY 1, 2004). Provides that services sold on a call-by-call basis shall be sourced to each level of jurisdiction where the call either originates or terminates, and in which the service address is located.

Sales of mobile telecommunications are sourced to the customer's primary place of primary use as required by the Mobile Telecommunications Sourcing Act.

Post paid calling services are sourced to the origination point of the telecommunications signal as first identified by the seller's telecommunications system, or information received by the seller from its service provider, where the system used to transport such signals is not that of the seller.

Prepaid calling services are sourced in the following manner. When the services are received by the purchaser at a business location of the seller, the sale is sourced to the business location. If it is not received by the purchaser at a business location of the seller, the sale is sourced to the location where receipt by the purchaser occurs.

IC 6-2.5-13-1 (EFFECTIVE JANUARY 1, 2004). Provides sourcing rules for general personal property and services excluding motor vehicles, trailers, aircraft, watercraft, modular homes, mobile homes, manufactured homes, or telecommunications services.

The retail sale, except for the lease or rental of a product shall be sourced in the following ways. A sale shall be sourced to the business location of the seller when received by the purchaser at the business location. If the item is received by the purchaser at a location other than that of the seller, the sale is sourced to the location received by the purchaser. If the first two provisions do not apply, the sale is sourced to the location indicated by an address for the purchaser that is available from the business records of the seller. If none of the previous provisions apply, the location will be determined by the address from which the property was shipped.

The lease or rental of property other than motor vehicles, trailers, semitrailers, aircraft, or property used in transportation that requires recurring periodic payments will be sourced in the following manner. The first payment is sourced the same as a retail transaction. Subsequent payments are sourced to the location of the property.

The lease or rental of motor vehicles, trailers, semitrailers, or aircraft is sourced to the primary location of the property. The retail sale or lease or rental of transportation equipment shall be sourced the same as a retail sale.

IC 6-2.5-13-2 (EFFECTIVE JANUARY 1, 2004). Provides for a multiple point of use exemption for a business purchaser that knows at the time of purchase that a digital good, computer software delivered electronically or for service that will concurrently be available for use in more than one jurisdiction. Presentation of the MPU exemption relieves the seller from all obligations to collect the sales tax from the purchaser. The purchaser is allowed to use any consistent and uniform apportionment method.

IC 6-2.5-13-3 (EFFECTIVE JANUARY 1, 2004). Provides that a direct mailer must provide the seller with a direct mail form, or information to show the jurisdictions to which the direct mail is delivered to recipients. Upon the receipt of the direct mail form, the seller is not obligated to collect the applicable tax, and the purchaser is obligated to remit the applicable tax on a direct pay basis. If the purchaser provides information to the seller of the jurisdictions to which the direct mail is delivered, the seller is required to collect the tax according to the delivery information provided by the purchaser.

### **IC 6-3 ADJUSTED GROSS INCOME TAX**

IC 6-3-1-3.5 (EFFECTIVE JANUARY 1, 2003, RETROACTIVE). Makes an exception when calculating Indiana adjusted gross income for the bonus depreciation deduction for property placed in service after September 11, 2001. This applies to individuals, corporations, trusts and estates, life insurance companies, and insurance companies.

IC 6-3-1-11 (EFFECTIVE JANUARY 1, 2003, RETROACTIVE). Updates the definition of adjusted gross income to correspond with the definition contained in the Internal Revenue Code.

IC 6-3-1-33 (EFFECTIVE JANUARY 1, 2003, RETROACTIVE). Adds a definition for bonus depreciation to mean that part of any depreciation allowance allowed in computing the taxpayer's federal adjusted gross income that is attributable to the additional first year special depreciation deduction allowance for qualified property allowed under Section 168(k) of the Internal Revenue Code.

IC 6-3-2-8 (EFFECTIVE JANUARY 1, 2004) Provides that employees of pass-through entities are eligible to claim the enterprise zone employee tax deduction if they live and work in the enterprise zone.

IC 6-3-2-14.1 (EFFECTIVE JULY 1, 2002, RETROACTIVE). Clarifies that a prize payment made after June 30, 2002 for a lottery drawing held before July 1, 2002 will be exempt from taxation. This clarifies that annuity payments received after June 30, 2002, for drawings held before July 1, 2002 will continue to be exempt from taxation.

IC 6-3-3-5; IC 6-3-3-5.1; IC 6-3-3-10 (EFFECTIVE APRIL 2, 2003). Eliminates references to the gross income tax act that has been repealed, and references changes contained in P.L.1-2003.

IC 6-3-4-4.1 (EFFECTIVE APRIL 2, 2003). Provides that the penalty for underestimated payment of adjusted gross income tax is not combined with the estimated payments of the utility receipts tax.

IC 6-3-4-6 (EFFECTIVE JULY 1, 2003). Provides that if a federal modification is made to a taxpayer's federal or Indiana adjusted gross income, the taxpayer shall file an amended Indiana return within one hundred twenty (120) days after the modification is made.

IC 6-3-4-8.1 (EFFECTIVE JULY 1, 2003) Eliminates a quarterly withholding report that is required if the withholding agent is remitting the withholding tax through electronic fund transfer.

### **IC 6-3.1 INCOME TAX CREDITS**

IC 6-3.1-4-6 (EFFECTIVE JULY 1, 2003). Provides that the research expense credit is extended until December 31, 2013.



IC 6-3.1-13-12 (EFFECTIVE JULY 1, 2003). Provides that the Economic Development for a Growing Economy (EDGE) Board is responsible for carrying out duties concerning the Hoosier Business Investment Tax Credit.

IC 6-3.1-18-8 (EFFECTIVE APRIL 2, 2003). Deletes a reference to the Gross Income Tax that has been repealed.

IC 6-3.1-19-1.5 (EFFECTIVE JANUARY 1, 2003, RETROACTIVE). Provides that pass-through entities are eligible for the Community Revitalization Enhancement District Tax Credit.

IC 6-3.1-19-3 (EFFECTIVE JANUARY 1, 2003, RETROACTIVE). Provides for the distribution of the Community Revitalization Enhancement District Tax Credit if the credit is taken by a member or shareholder of a pass-through entity.

IC 6-3.1-23-1.5 (EFFECTIVE JANUARY 1, 2004). Defines a legislative body as the city council if a voluntary remediation property is located in a city, and the county council if the property is located in the county and not in a city.

IC 6-3.1-23-3 (EFFECTIVE JANUARY 1, 2004). Adds a provision to the term qualified investment so that costs incurred in the remediation of a brownfield will result in taxable income to another Indiana taxpayer.

IC 6-3.1-23-11 (EFFECTIVE JANUARY 1, 2004). Provides that in addition to the five-year carry forward of any unused Voluntary Remediation Tax Credit, a taxpayer may carry a credit back to the immediately preceding taxable year before the credit is initially claimed.

IC 6-3.1-23-16 (EFFECTIVE JANUARY 1, 2004). Extends the voluntary remediation tax credit until December 31, 2005.

IC 6-3.1-24-5 (EFFECTIVE JANUARY 1, 2003, RETROACTIVE). Provides that a pass-through entity is eligible for the Venture Capital Investment Tax Credit.

IC 6-3.1-24-6 (EFFECTIVE JANUARY 1, 2003, RETROACTIVE). Provides that a taxpayer who provides qualified investment capital to a qualified Indiana business, and provides a proposed investment plan to the Department of Commerce, which must be approved by the Department of Commerce, and requires the taxpayer to make the investment within two (2) years of the approval to be eligible for the credit.

IC 6-3.1-24-7 (EFFECTIVE JANUARY 1, 2003, RETROACTIVE). Eliminates the requirement that a qualified business must be a high growth company that is entering a new product area, that requires jobs requiring a postsecondary education, and has a substantial number of employees who earn at least one hundred fifty percent (150%) of Indiana per capita personal income.

IC 6-3.1-24-9 (EFFECTIVE JANUARY 1, 2003, RETROACTIVE). Prohibits the Department of Commerce from certifying an investment if the total amount of tax credits would exceed ten million dollars (\$10,000,000) in a calendar year.

Provides that any credits existing on December 31, 2008 for investments already made may be carried forward to subsequent taxable years.

IC 6-3.1-24-12 (EFFECTIVE JANUARY 1, 2003, RETROACTIVE). Clarifies that a taxpayer is not eligible for a refund of any unused credit.

IC 6-3.1-24-12.5 (EFFECTIVE JANUARY 1, 2003, RETROACTIVE). Provides that a taxpayer desiring to receive the Capital Investment Tax Credit must apply to the Department of Commerce for a certification that the proposed investment would qualify for a credit. The application must include the name and address of the taxpayer, and the name and address of each proposed recipient of the proposed investment.

For a taxpayer to receive the credit, the investment capital must be provided to the qualified business within two

(2) years after the certification of the investment plan. Upon proof of a taxpayer's investment, the Department of Commerce shall issue a certificate to the taxpayer that the taxpayer is eligible for the credit.

IC 6-3.1-24-13 (EFFECTIVE JANUARY 1, 2003, RETROACTIVE). Requires the taxpayer to submit a copy of the certificate issued by the Department of Commerce for the Capital Investment Tax Credit to the Department when filing the taxpayer's tax return and claiming the credit.

IC 6-3.1-25.2 (EFFECTIVE JANUARY 1, 2004). Creates the Coal Combustion Product Tax Credit. A coal combustion product is the by-product resulting from the combustion of coal in a facility located in Indiana. The term includes boiler slag, bottom ash, fly ash, and scrubber sludge.

A manufacturer that obtains and uses coal combustion products for the manufacturing of recycled components and is a new business is eligible for the credit. An existing business that manufactures recycled components, and increases the acquisitions of coal combustion products by ten percent (10%) over the average amount obtained in the previous three years is also eligible for the credit. Recycled components include aggregates, fillers, cementitious materials, or any combination thereof that are used in the manufacture of masonry construction products, concrete blocks, bricks, pavers, pipes, prestressed concrete products and other products approved by the Center for Coal Technology Research.

The credit is equal to two dollars (\$2.00) per ton of coal combustion products used by the manufacturer if the manufacturer is a new manufacturer. The credit for an existing manufacturer only applies to the additional amount of coal combustion products used by the manufacturer. The maximum credit for all taxpayers in a fiscal year may not exceed two million dollars (\$2,000,000). The credit cannot be carried forward to subsequent years, nor can it be carried back or refunded. Pass-through entities are eligible for the credit.

To obtain the credit, the taxpayer must file with the Department information that the Department determines is necessary for the calculation of the credit. The Department is required to keep a list that includes the name of each manufacturer that receives a credit, and the amount of each credit for the taxpayer in the taxable year. The list will be provided annually to the Center for Coal Technology Research.

A taxpayer who obtains a property tax deduction for investment property purchased by a manufacturer of coal combustion products is not eligible for the income tax credit.

IC 6-3.1-26 (EFFECTIVE JULY 1, 2003). Creates the Hoosier Business Investment Tax Credit administered by the EDGE Board. The credit is for qualified investments, which include the purchase of new telecommunications, production, manufacturing, fabrication, processing, refining, or finishing equipment. It also includes costs associated with the modernization of the above equipment. Qualified investments include onsite infrastructure improvements, construction costs, retooling existing machinery and equipment, and costs associated with special purpose buildings and foundations. The term does not include property that can be readily moved out of Indiana.

The credit is the lesser of thirty percent (30%) of the amount of the qualified investment made by the taxpayer in Indiana, or the taxpayer's state tax liability growth. The taxpayer may carry a credit forward for nine (9) years. Pass-through entities are eligible for the credit.

The board may enter into an agreement with a taxpayer if the taxpayer meets all of the following conditions. The applicant has been in business for at least one year, the project will raise the total earnings of the applicant's employees, the project is economically sound, awarding the tax credit will result in an overall positive fiscal impact to the state, and that the average hourly wage will be one hundred fifty percent (150%) of the hourly minimum wage.

The credit shall only be granted for the amount of the qualified investment that is directly related to expanding the workforce in Indiana. The Board is required to enter into an agreement with the taxpayer before the taxpayer is eligible for any credits. The agreement must include a detailed description of the project, the first year in which the credit can be claimed, the maximum tax credit amount that will be allowed for each taxable year, and the taxpayer shall annually report to the Board the number of new employees.

The taxpayer is required to submit to the Department a copy of the certificate verifying the amount of tax credit for the taxable year. If a taxpayer is not in compliance with the agreement, an assessment may be made to recover the amount of tax credits that have previously been granted.

A taxpayer is not eligible for any credit for a qualified investment made after December 31, 2005. This provision does not prevent the carry forward of any credit awarded before January 1, 2006. The credit applies to taxable years beginning after December 31, 2003 and ending before January 1, 2006.

IC 6-3.1-27 (EFFECTIVE JANUARY 1, 2004). Creates a new tax credit for a taxpayer who produces biodiesel at a facility located in Indiana. The credit is equal to one dollar (\$1.00) per gallon of biodiesel produced in Indiana and used to produce blended biodiesel. The credit will be reduced by any subsidy or credit that the taxpayer is entitled to receive from the federal government. Pass-through entities are eligible for the credit, and the credit can be applied against the sales tax, the adjusted gross income tax, the financial institutions tax, and the insurance premiums tax. The credit is limited to one million dollars (\$1,000,000) for all taxpayers in all taxable years.

Provides a tax credit for the producer of blended biodiesel at a facility located in Indiana. The credit is equal to two cents (\$.02) per gallon of blended biodiesel produced in Indiana. The credit shall be reduced by the amount of any federal subsidy or credit that the taxpayer receives from the federal government. Pass-through entities are eligible for the credit, and the total credits for all taxpayers in all taxable years may not exceed one million dollars (\$1,000,000). The tax credit may be applied against the sales tax, adjusted gross income tax liability, financial institutions tax liability, and insurance premiums tax liability.

Provides a tax credit for a dealer that operates a service station and sells blended biodiesel through a metered pump. The amount of the credit is one cent (\$.01) per gallon of blended biodiesel sold through the metered pumps. The credit must be computed separately for each service station operated by the taxpayer. The total amount of credits for all taxpayers for all taxable years may not exceed one million dollars (\$1,000,000). The credit may be applied against the taxpayer's sales tax, adjusted gross income tax, financial institutions tax, and the insurance premiums tax liability.

The amount of all three credits mentioned above can be carried forward to subsequent taxable years. The credit cannot be carried back or refunded. The Department will prescribe the forms to be used in claiming the credit.

IC 6-3.1-28 (EFFECTIVE JANUARY 1, 2004). Creates an ethanol production tax credit for a facility located in Indiana, with a capacity to produce forty million (40,000,000) gallons of ethanol per year, and the facility increases its capacity by at least forty million (40,000,000) gallons per year.

A taxpayer is entitled to a credit of twelve and one-half cents (\$.125) per gallon of ethanol produced at the Indiana facility.

Pass-through entities are eligible for the credit, and the credit may be applied against the sales tax, adjusted gross income tax, financial institutions tax, and the insurance premiums tax.

If the amount of the credit exceeds the taxpayer's liability, the excess may be carried forward. The taxpayer is not entitled to a carryback or refund of any unused credit. To receive the credit, the taxpayer must submit proof that the facility is a qualified facility, and submit to the Department all proof that the Department determines is necessary.

The total amount of credits allowed for a taxpayer in all taxable years may not exceed five million dollars (\$5,000,000), and the total amount of credits for all taxpayers may not exceed ten million dollars (\$10,000,000) in all taxable years.

### **IC 6-3.5-1.1 COUNTY ADJUSTED GROSS INCOME TAX (CAGIT)**

IC 6-3.5-1.1-3.3 (EFFECTIVE UPON PASSAGE). Provides that Clay County may impose an additional CAGIT rate of one-fourth of one percent (0.25%) to finance, acquire, improve, renovate or equip a county jail. Bonds that are issued can be issued for thirty (30) years.



IC 6-3.5-1.1-9 (EFFECTIVE JUNE 1, 2003). Changes the method for calculating the certified distribution for CAGIT revenues. Provides that the amount will be the amount received from that county for a taxable year ending before the calendar year in which the determination is made, and reported on an annual return processed by the Department in the state fiscal year ending before July 1 of the calendar year in which the determination is made.

Provides that by August 2 of each year, the Department shall certify the amount determined above, plus interest in the county's account that has accrued and has not been included in a certification made in a previous year. The Department shall provide an informational summary of the calculations used to determine the certified distribution.

The Department shall certify an amount less than the amount determined to have been collected if the Department determines that a reduced distribution is necessary to offset overpayments made in a previous calendar year. The Department may reduce the amount of the certified distribution over several years.

Provides that a county that initially imposes CAGIT in a year in which the Department makes a certification may adjust the distribution of a county to provide for a distribution in the immediately following calendar year. Requires the Department to adjust the certified distribution to provide the county with the distribution required under this chapter within ten (10) months after the month in which additional revenue from the tax is initially collected.

IC 6-3.5-1.1-21 (EFFECTIVE JUNE 1, 2003). Requires the Department to notify each county auditor of the balance in the County's Adjusted Gross Income Tax account as of the cutoff date specified by the Budget Agency.

IC 6-3.5-1.1-21.1 (EFFECTIVE JUNE 1, 2003). Provides that the Department can make a supplemental distribution if the Department determines that a sufficient balance exists in a county's account.

#### **IC 6-3.5-6 COUNTY OPTION INCOME TAX (COIT)**

IC 6-3.5-6-17 (EFFECTIVE JUNE 1, 2003). Changes the method for calculating the certified distribution of COIT revenues. Provides that the amount will be the amount received from that county for a taxable year ending before the calendar year in which the determination is made, and reported on an annual return processed by the Department in the state fiscal year ending before July 1 of the calendar year in which the determination is made.

Provides that by August 2 of each year, the Department shall certify the amount determined above, plus interest in the county's account that has accrued and has not been included in a certification made in a previous year. The Department shall provide an informational summary of the calculations used to determine the certified distribution.

The Department shall certify an amount less than the amount determined to have been collected if the Department determines that a reduced distribution is necessary to offset overpayments made in a previous calendar year. The Department may reduce the amount of the certified distribution over several years.

Provides that a county that initially imposes COIT in a year in which the Department makes a certification may adjust the distribution of a county to provide for a distribution in the immediately following calendar year. The Department shall provide for a full transition to certification of distributions as required under this chapter.

IC 6-3.5-6-17.2 (EFFECTIVE JUNE 1, 2003). Requires the Department to notify each county auditor by October 2 of each year, the balance in the county's county option income tax account as of the cutoff date as determined by the Budget Agency.

IC 6-3.5-6-17.3 (EFFECTIVE JUNE 1, 2003). If the Department determines that a sufficient balance exists in a county's account as of October 2, the Department can make a supplemental distribution to the county. The funds will be deposited in the civil unit's rainy day fund.

## **IC 6-3.5-7 COUNTY ECONOMIC DEVELOPMENT INCOME TAX (CEDIT)**

IC 6-3.5-7-5 (EFFECTIVE UPON PASSAGE). Provides that the maximum combined CAGIT and CEDIT rate in Clay County may not exceed one and five-tenths percent (1.5%) if the county uses the funds for a new jail.

IC 6-3.5-7-5 (EFFECTIVE JULY 1, 2003). Permits a county to increase its CEDIT rate by one-quarter of one percent (0.25%) if it operates a courthouse that is subject to a federal court order to comply with the Americans with Disabilities Act.

IC 6-3.5-7-10.5 (EFFECTIVE JUNE 1, 2003). Requires the Department to notify by October 2 of each year the balance in a county's special account as of the cutoff date set by the Budget Agency.

IC 6-3.5-7-11 (EFFECTIVE JUNE 1, 2003). Changes the method for calculating the certified distribution for CEDIT revenues. Provides that the amount will be the amount received from that county for a taxable year ending before the calendar year in which the determination is made, and reported on an annual return processed by the Department in the state fiscal year ending before July 1 of the calendar year in which the determination is made.

Provides that by August 2 of each year, the Department shall certify the amount determined above, plus interest in the county's account that has accrued and has not been included in a certification made in a previous year. The Department shall provide an informational summary of the calculations used to determine the certified distribution.

The Department shall certify an amount less than the amount determined to have been collected if the Department determines that a reduced distribution is necessary to offset overpayments made in a previous calendar year. The Department may reduce the amount of the certified distribution over several years.

Provides that a county that initially imposes CEDIT in a year in which the Department makes a certification may adjust the distribution of a county to provide for a distribution in the immediately following calendar year. The Department shall provide for a full transition to certification of distributions as required under this chapter.

IC 6-3.5-7-17.3 (EFFECTIVE JUNE 1, 2003). If the Department determines that a sufficient balance exists in a county's account as of October 2, the Department can make a supplemental distribution to the county. The funds will be deposited in the civil unit's rainy day fund.

IC 6-3.5-7-22.5 (EFFECTIVE UPON PASSAGE). Provides that the additional CEDIT rate for Randolph County that was previously enacted, may be used for financing constructing, acquiring, renovating, and equipping buildings and apparatus for a volunteer fire department that provides services in any part of the county. Eliminates the provision that provided the use of funds for renovation and equipping the county courthouse.

IC 6-3.5-7-27 (EFFECTIVE UPON PASSAGE). Gives authority for a county council to impose an additional CEDIT rate to fund improvements to the county courthouse for court ordered improvements to comply with the Americans with Disabilities Act. Provides that the funds raised will be deposited in the county facilities revenue fund. Tax revenues raised from the additional tax may not be used for any other purpose.

Provides that if an ordinance is adopted before June 1 of a year, the tax rate takes effect on July 1 of that year. If the ordinance is adopted after May 31 of a year, then the tax rate takes effect on January 1 of the following year. Provides that if the county adopts the tax after May 31 effective January 1 of the following year, the county shall receive its entire certified distribution for the year on November 1 of the year.

## **IC 6-4.1 INHERITANCE TAX**

IC 6-4.1-5-10 (EFFECTIVE JULY 1, 2003). Provides that a court order describing the fair market value of an estate is confidential.

## **IC 6-5.5 FINANCIAL INSTITUTION TAX**

IC 6-5.5-1-2 (EFFECTIVE JANUARY 1, 2003, RETROACTIVE). Makes an exception to the definition of Adjusted Gross Income for the Financial Institution Tax. The exception is for the bonus depreciation deduction for property placed in service after September 11, 2001.

IC 6-5.5-1-20 (EFFECTIVE JANUARY 1, 2003, RETROACTIVE). Adds a definition of Bonus Depreciation to mean that part of any depreciation allowance allowed in computing the taxpayer's federal taxable income that is attributable to the additional first year special depreciation allowance for qualified property allowed under Section 168(k) of the Internal Revenue Code.

IC 6-5.5-2-7 (EFFECTIVE APRIL 2, 2003). Deletes a reference to the Gross Income Tax that has been repealed.

## **IC 6-6-2.5 SPECIAL FUEL TAX**

IC 6-6-2.5-70 (EFFECTIVE JULY 1, 2003). Changes a cross-reference within the Special Fuel Tax because of the recodification of Title 10.

## **IC 6-6-6.5 AIRCRAFT LICENSE EXCISE TAX**

IC 6-6-6.5-9 (EFFECTIVE JANUARY 1, 2004). Provides that an aircraft owned by an air carrier that has an Indiana corporate headquarters is not exempt from Aircraft Registration and Excise Tax.

IC 6-6-6.5-12 (EFFECTIVE JANUARY 1, 2003, RETROACTIVE). Provides that an aircraft eligible for the property tax deduction under IC 6-1.1-12.3 is not exempt from the Aircraft Excise Tax.

IC 6-6-6.5-19 (EFFECTIVE JULY 1, 2003). Corrects an internal reference to penalty provisions for failure to register and pay the sales tax in a timely manner for aircraft.

## **IC 6-7 CIGARETTES AND OTHER TOBACCO PRODUCTS**

IC 6-7-1-17 (EFFECTIVE JULY 1, 2003). Eliminates the requirement for a cigarette distributor to post a bond or a letter of credit if they have been in good standing with the Department for five (5) consecutive years.

IC 6-7-1-18 (EFFECTIVE JULY 1, 2003). Requires every cigarette distributor to include an invoice with the shipment or delivery of cigarettes to a retailer. Requires the retailer to retain the invoice for at least two weeks and allows the retailer to request a duplicate invoice from the distributor.

IC 6-7-2-11 (EFFECTIVE JULY 1, 2003). Gives the Department authority to suspend or revoke a Tobacco Product Distributor's License if they fail to provide the retailer with an invoice as required in IC 6-7-1-18.

## **IC 6-8.1 TAX ADMINISTRATION**

IC 6-8.1-3-12 (EFFECTIVE JULY 1, 2003). Provides that if a county collects the innkeepers' tax, the county treasurer has concurrent jurisdiction with the Department concerning audits and enforcement powers, and the authority to recover court costs and fees.

IC 6-8.1-5-2.5 (EFFECTIVE JULY 1, 2003). Provides that if the Department determines that a proposed assessment includes an individual who is not responsible for the tax liability, a new assessment may be issued naming the taxpayer that is responsible for the liability. Provides that the time limitation for issuing assessments does not apply to this section. This provision is also known as the "innocent spouse" provision.

IC 6-8.1-6-5 (EFFECTIVE JULY 1, 2003). Eliminates the requirement that the Department request vehicle ownership and registration information on the income tax annual returns filed by taxpayers.

IC 6-8.1-7-1 (EFFECTIVE JULY 1, 2003). Eliminates the necessity of the Department to notify the Bureau of

Motor Vehicles concerning Auto Excise Tax evasion from information gathered off tax returns.

## **IC 6-9 INNKEEPERS' TAX**

IC 6-9-5 (EFFECTIVE JULY 1, 2003). Repeals the Knox County Innkeepers' Tax. Adds a noncode section so that Knox County can continue its tax under the authority of the Uniform Innkeepers' Tax.

IC 6-9-10-6 (EFFECTIVE UPON PASSAGE). Provides that Wayne County may increase its Innkeepers' Tax by one percent (1%) to a maximum of six percent (6%).

IC 6-9-12-3; IC 6-9-20-4; IC 6-9-21-4; IC 6-9-23-4; IC 6-9-14-4; IC 6-9-25-4; IC 6-9-26-7; IC 6-9-27-4; IC 6-9-33-4 (EFFECTIVE JANUARY 1, 2004). Amends the various Food and Beverage Tax statutes so that the definition of food sold for a to go or take out basis correspond to provisions in the sales tax statute.

## **OTHER PROVISIONS**

IC 4-4-8-1 (EFFECTIVE JULY 1, 2003). Deletes a reference to the Investment Credit that has been repealed.

IC 4-4-31 (EFFECTIVE JULY 1, 2003). Creates the funding of Industrial Development Projects in distressed counties. Requires the Department of Workforce Development to annually compile a list of distressed counties. Provides that the Indiana Development Finance Authority (IDFA) may designate an industrial development project as a tax allocation project. The resolution will provide for the allocation of covered taxes earned in the tax allocation area to an industrial development project area fund.

With approval of the Budget Agency, an allocation of covered taxes not exceeding five hundred thousand dollars (\$500,000) may be made to the industrial development project area for an industrial development project. The covered taxes include: covered taxes incurred by a developer including gross retail taxes collected by a retail merchant on goods or services provided to the developer; covered taxes incurred by an entity that leases, controls, or uses facilities developed through an industrial development project; covered taxes incurred by a shareholder, partner, or member of an entity that operates in facilities developed through an industrial development project; and four percent (4%) of covered taxes on wages earned by persons employed or providing services at facilities financed through an industrial development project.

Requires the IDFA to provide the Department with a copy of any resolution adopted and a copy of the related financing agreement. Requires the Department to compute the base allocation amount for the area, and annually deposit the covered taxes in the Industrial Development Project Fund.

The Department shall estimate the base allocation amount from data available to the Department. The base allocation amount is equal to the amount of covered taxes deposited from taxable events occurring, or from wages earned in the tax allocation area in the calendar year preceding the year of the adoption of the resolution.

Gives the Department the authority to adopt rules and prescribe forms, including informational returns necessary to identify tax receipts that are to be deposited in an industrial development project area fund.

Provides that this chapter of the Indiana Code expires on July 1, 2005.

IC 5-17-1-11 (EFFECTIVE JULY 1, 2003). Gives a purchasing agent for the state or a state educational institution the authority to cancel a contract if a vendor is delinquent in remitting sales tax to the Department.

IC 5-22-16-4 (EFFECTIVE JULY 1, 2003). Provides that a state agency or a state educational institution may not purchase property or services from a person that is delinquent in payment of sales taxes unless the person provides a tax clearance from the Department that the liability has been satisfied or the liability has been released.

IC 5-26-3-5 (EFFECTIVE JULY 1, 2003). Creates the state agency Public Safety Committee for Public Safety Agencies that have or want to have voice or data wireless communications. The Department will have one representative on the committee.

IC 8-2.1-24-18 (EFFECTIVE JULY 1, 2003). Allows the Bureau of Motor Vehicles to grant an intrastate medical waiver for an insulin dependent diabetic who has applied for or who currently has a commercial driver's license. The waiver only applies to a private carrier of property operated only in intrastate commerce, or while employed in construction or construction related business.

IC 8-2.1-24-18 (EFFECTIVE JULY 1, 2003). Updates the Indiana Code to coincide with federal regulations for motor carrier safety.

IC 8-9-11-4 (EFFECTIVE JULY 1, 2003). Gives the Department rule-making authority for provisions concerning the length of time that a contract carrier can operate a vehicle that is transporting railroad employees.

IC 9-13-2-171 (EFFECTIVE JULY 1, 2003). Provides that a special tractor mobile-home rig may be eighty-five (85) feet in length.

IC 9-13-2-181 (EFFECTIVE JULY 1, 2003). Provides that a tractor mobile-home rig may not exceed one hundred ten (110) feet, of which the mobile home may not be more than eighty-five (85) feet, and the height does not exceed fourteen (14) feet.

IC 9-20-14-6 (EFFECTIVE JULY 1, 2003). Provides that a person who has a quarterly or annual permit to move a tractor mobile-home rig may only use the permissible routes, and the person must check the daily detour and restriction bulletin before choosing a route of travel. If a person uses a restricted or prohibited route, the person's permit may be revoked for ninety (90) days. The person may use a single trip permit until the person is eligible for a new quarterly or annual permit.

IC 9-20-15-6 (EFFECTIVE JULY 1, 2003). Provides that the length of an extra wide manufactured home rig may not exceed eighty-five (85) feet for the manufactured home part of the combination of the towing rig and the manufactured home.

IC 9-20-15-7 (EFFECTIVE JANUARY 1, 2003). Provides that a person who has a quarterly or annual permit to move a special mobile-home rig may only use the permissible routes, and the person must check the daily detour and restriction bulletin before choosing a route of travel. If a person uses a restricted or prohibited route, the person's permit may be revoked for ninety (90) days. The person may use a single trip permit until the person is eligible for a new quarterly or annual permit.

IC 9-24-6-2 (EFFECTIVE JULY 1, 2003). Updates the Indiana Code to coincide with federal regulations concerning commercial driver's licenses. Provides that the rules adopted by the Bureau of Motor Vehicles concerning commercial driver's licenses may not be more restrictive than the Federal Motor Carrier Safety Improvement Act of 1999.

IC 9-29-6-7 (EFFECTIVE JULY 1, 2003). Provides that a person who is not a mobile home retail dealer may purchase a quarterly permit allowing for unlimited trips for two hundred fifty dollars (\$250). An annual permit is one thousand dollars (\$1,000).

IC 9-29-6-9 (EFFECTIVE JULY 1, 2003). Provides that a person may purchase a quarterly permit to move a special tractor mobile-home rig for unlimited trips for five hundred dollars (\$500) per quarter, or two thousand dollars (\$2,000) per year.

IC 24-3-2-2 (EFFECTIVE JULY 1, 2003). Transfers the authority to enforce the cigarette fair trade law from the Indiana Department of Revenue to the Alcohol and Tobacco Commission.

IC 24-3-2-4.7 (EFFECTIVE JULY 1, 2003). Gives the Department concurrent jurisdiction with the Alcohol and Tobacco Commission concerning violations if a retailer is unable to produce an invoice that proves that he purchased cigarettes from a licensed distributor.

IC 24-3-5-6 (EFFECTIVE JULY 1, 2003). Requires that a merchant who makes delivery sales of cigarettes shall provide the Department with a written statement containing the merchant's name, address, principal place of



business, and each business location in Indiana. Requires the merchant to file not later than the tenth of the month following the month in which the delivery sale was made, a copy of each invoice for each sale to a customer in Indiana. The invoice must have the customer's name and address, and the brand name and quantity of tobacco products that were delivered to the customer. Provides that a merchant who complies with the Federal Jenkins Act does not have to file copies of the invoices with the Department.

IC 24-3-5-7 (EFFECTIVE JULY 1, 2003). Requires that a customer who makes a delivery sale shall collect and pay all tobacco taxes to the Department, or they shall notify the purchaser that the purchaser is responsible for paying the taxes to the Department, and that the Department has been notified of the sales transaction.

IC 24-3-5.2-6 (EFFECTIVE JULY 1, 2003). Requires a merchant to provide the Department with a written statement containing the merchant's name, address, principal place of business, and each place of business in Indiana, if the merchant is mailing or shipping cigarettes as part of a delivery sale into Indiana. Requires the merchant to file with the Department not later than the tenth of the month a copy of every invoice for each delivery sale to a customer in Indiana. The invoice must include the name and address of the customer, the brand name of the cigarettes, and the quantity of the cigarettes shipped to the customer. A merchant who complies with the federal Jenkins Act is not required to file the invoice with the Department.

IC 24-3-5.2-7 (EFFECTIVE JULY 1, 2003). Requires a merchant who ships cigarettes to a customer in Indiana to collect and pay all applicable cigarette taxes. An option available to the merchant requires the merchant to place a notice on the outside of the shipping container informing the purchaser that the merchant under federal law has notified the Department of the shipment and that the purchaser is responsible for all applicable unpaid taxes. The merchant must also calculate the amount of taxes that the purchaser is required to pay to the Department.

IC 24-3-5.4-13 (EFFECTIVE JULY 1, 2003). Provides that not later than April 30 of each year, a tobacco product manufacturer whose cigarettes are sold in Indiana, shall certify to the Department and the Attorney General that the manufacturer is a participating manufacturer and in full compliance with IC 24-3-3. Requires the Department to prescribe the form of the certificate. Requires the manufacturer to include a list of brand families. Requires the manufacturer to update the list within thirty (30) days of adding to or modifying its list of brand families. A nonparticipating manufacturer must supply the same information and include the number of units sold for each brand family. The nonparticipating manufacturer must also certify that they are registered to do business in Indiana, and supply information concerning the deposits made to the escrow account.

IC 24-3-5.4-15 (EFFECTIVE JULY 1, 2003). Prohibits a person from selling or affixing a cigarette stamp to a package of cigarettes if the manufacturer or brand family is not listed in the directory maintained by the attorney general.

IC 24-3-5.4-16 (EFFECTIVE JULY 1, 2003). Provides special provisions for a foreign nonparticipating manufacturer to get brand families on the list. All information pertaining to the list must be sent to the Department and the Attorney General.

IC 24-3-5.4-17 (EFFECTIVE JULY 1, 2003). Requires cigarette distributors to file quarterly with the Department a list by brand family of the total amount of cigarettes stamped during the previous three months.

IC 24-3-5.4-20 (EFFECTIVE JULY 1, 2003). Gives the Department rule making authority concerning this chapter, including rules to require a nonparticipating manufacturer to make required escrow deposits in installments during the calendar year. They may also be required to produce information to enable the attorney general to determine the adequacy of the amount of an installment deposit made.

IC 24-3-5.4-21 (EFFECTIVE JULY 1, 2003). Gives the Department authority to revoke a distributor's license if the distributor stamps cigarettes that are not a brand family listed on the register.

IC 24-3-5.4-27 (EFFECTIVE JULY 1, 2003). Requires a cigarette distributor to certify that the distributor will comply with the provisions of this chapter.

IC 36-7-13-10.1 (EFFECTIVE JULY 1, 2003). Provides that all first- and second-class cities, after approval of

an ordinance by the legislative body of the city may designate an area within the city to be a Community Revitalization Enhancement District (CRED). The total number of districts in a city may not exceed one.

IC 36-7-13-12 (EFFECTIVE JULY 1, 2003). Provides that the Community Revitalization Enhancement District in Delaware County must include a building with at least 800 fewer people than were employed there fifteen (15) years ago, and must include a building with at least 400 fewer people than were employed there fifteen (15) years ago.

IC 36-7-13-12.1 (EFFECTIVE JULY 1, 2003). Provides the criteria for the development and requirements for a Community Revitalization Enhancement District in a first- or second-class city. Requires the city to have expended, appropriated or pledged at least two hundred fifty thousand dollars (\$250,000) for purposes of addressing the redevelopment obstacles. A district created may not exceed fifteen (15) years in duration. Stipulates that the income tax incremental amount and gross retail incremental amount is equal to seventy-five percent (75%) of the full amount of incremental taxes that are generated in the district. The incremental amounts cannot be allocated to the district until the Budget Agency approves the resolution.

IC 36-7-13-15 (EFFECTIVE JULY 1, 2003). Provides that a Community Revitalization Enhancement District created in a first- or second-class city may not have incremental tax financing that exceeds (\$750,000) per year.

## **NONCODE SECTIONS**

HEA 1001 SECTION 48 (EFFECTIVE JULY 1, 2002, RETROACTIVE). Provides that a riverboat that implemented flexible scheduling during Fiscal Year 2003 will calculate the gaming tax as though the flexible scheduling had been implemented on July 1, 2002. Provides that the riverboat can pay any deficiency in the wagering tax liability in two equal installments on July 1, 2003 and July 1, 2004. If the payments are made in a timely manner, all penalty and interest that might be assessed will be waived.

HEA 1001 SECTION 243 (EFFECTIVE JANUARY 1, 2003, RETROACTIVE). Provides that the pass-through provisions for the Community Revitalization Enhancement District income tax credit apply to taxable years beginning after December 31, 2002.

HEA 1001 SECTION 275 (EFFECTIVE JULY 1, 2003). Gives the Department the authority to adopt emergency rules for implementing the tax provisions in the funding of Industrial Development Projects in distressed counties.

HEA 1155 SECTION 6 (EFFECTIVE UPON PASSAGE). Provides that if Clay County adopts an additional CAGIT tax to fund a county jail by June 1, 2003, the tax will be effective July 1, 2003. Also provides that an ordinance adopted after May 31, 2003 and before January 1, 2004 will take effect on January 1, 2004. If the tax does not take effect until January 1, 2004, the first certified distribution would take place on November 1, 2004.

HEA 1423 SECTION 1 (EFFECTIVE UPON PASSAGE). Provides that a partner, shareholder, or member of a pass-through entity that operated at the Rockville Correctional Facility and claimed the Prison Investment Credit is eligible for the Prison Investment Credit for taxable years beginning after December 31, 1997, and ending before January 1, 2002. After 2001, all entities are eligible for the Prison Investment Credit. Any penalties or interest assessed against the taxpayer are waived. Provides that the three-year time limitation for claiming a refund does not apply to a refund claimed under this SECTION.

HEA 1714 SECTION 35 (EFFECTIVE JANUARY 1, 2004). Repeals IC 6-3.1-23-7; IC 6-3.1-23-8; IC 6-3.1-23-9; and IC 6-3.1-23-10. These repeals concern local authority to approve a Voluntary Remediation Tax Credit, and the public hearing process that is involved in granting local approval.

HEA 1728 SECTION 6 (EFFECTIVE JANUARY 1, 2002, RETROACTIVE). Prohibits any taxpayer from taking the deduction allowed in computing income that is attributable to the Bonus Depreciation Deduction for any taxable year that begins before January 1, 2003. Requires the Department to issue a Commissioner's Directive by August 1, 2003 to explain how the provisions of HB 1728 must be implemented by the taxpayer.

HEA 1788 SECTION 22 (EFFECTIVE JULY 1, 2003). Requires a cigarette manufacturer to file with the Department the initial list of brand families in accordance with IC 24-3-5.4-13 no later than August 15, 2003.

HEA 1815 SECTION 42 (EFFECTIVE UPON PASSAGE). Provides that the Department shall adopt initial rules and forms to implement the streamline provisions by December 1, 2003. Gives the Department emergency rule making authority for these provisions, and provides that the emergency rules expire no later than July 1, 2005.

SEA 166 SECTION 16 (EFFECTIVE JUNE 1, 2003). Repeals IC 6-3.5-1.1-9.5; IC 6-3.5-6-17.4; IC 6-3.5-6-17.5; IC 6-3.5-6-17.6; IC 6-3.5-7-19.

SEA 422 SECTION 12 (EFFECTIVE JANUARY 1, 2003, RETROACTIVE). Amends P.L. 192-2002(ss) SECTION 196 to provide that the \$1,000 taxpayer deduction and the resource recovery system depreciation deduction for the utility receipts tax will be prorated for fiscal year taxpayers.

SEA 422 SECTION 13 (EFFECTIVE JANUARY 1, 2003, RETROACTIVE). Amends P.L. 192-2002(ss) SECTION 197 to provide that a fiscal year taxpayer's final supplemental net income tax (SNIT) return will be filed at the same time as the taxpayer's adjusted gross income tax return is due, instead of April 15, 2003.

Provides that the calculation for SNIT will be based on the taxpayer's full year supplemental net income tax liability prorated for the portion of the taxpayer's taxable year that occurred during calendar year 2002.

Gives the Department the authority to prescribe forms and procedures for reconciling the returns and tax due under P.L.192-2002(ss), SECTION 197 before this amendment. Provides that the Department can grant automatic extensions for the filing of returns that were due before April 16, 2003.

SEA 422 SECTION 14 (EFFECTIVE JANUARY 1, 2003, RETROACTIVE). Amends P.L.192-2002(ss) SECTION 199 to provide that the final gross income tax return of a fiscal year taxpayer is due on the fifteenth day of the fourth month following the close of the taxpayer's taxable year if the taxpayer was subject to the adjusted gross income tax.

Gives the Department the authority to prescribe forms and procedures for reconciling the returns and tax due under P.L.192-2002(ss) SECTION 199 before this amendment. Provides that the Department can grant automatic extensions for the filing of returns that were due before April 16, 2003.

SEA 422 SECTION 15 (EFFECTIVE JULY 1, 2002, RETROACTIVE). Amends P.L.192-2002(ss) SECTION 199 to clarify that a fiscal year taxpayer that is subject to the gross income tax and not subject to the adjusted gross income tax must still file the gross income tax return on or before April 15, 2003.

SEA 422 SECTION 16 (EFFECTIVE JULY 1, 2002, RETROACTIVE). Amends P.L.192-2002(ss) SECTION 200 to provide the calculation of total gross and adjusted gross income tax for fiscal year taxpayers. Calculate the total AGI for the taxable year multiplied by 3.4%. Multiply the tax liability above by the portion of the taxable year that occurs during 2002. Determine the greater of the 2002 AGI liability and the gross income tax liability for 2002. Multiply the total AGI for the taxable year by 8.5%. Multiply the AGI liability by the portion of the taxable year that occurs in 2003. Add the 2003 AGI liability to the greater of the gross or AGI liability for 2002.

Provides that the \$1,000 taxpayer deduction and the resource recovery system depreciation deduction from the gross income tax be prorated for the part of the fiscal year that occurs during 2002.

Gives the Department the authority to prescribe forms and procedures for reconciling the returns and tax due under P.L.192-2002(ss) SECTION 200 before this amendment. Provides that the Department can grant automatic extensions for the filing of returns that were due before April 16, 2003.



## **TAXPAYER BILL OF RIGHTS**

Public Law 332-1989

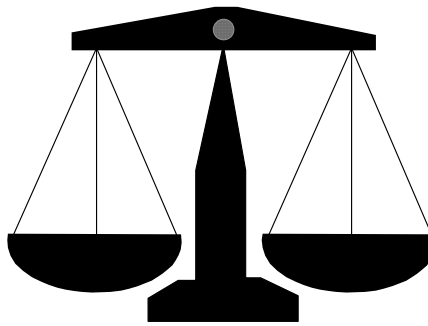
(Special Session)

### **Indiana Taxpayer Rights and Responsibilities**

All Indiana taxpayers have certain rights and responsibilities that correspond to the Indiana tax laws. The Taxpayer Bill of Rights sets forth these rights and responsibilities for Indiana Taxpayers:

- I      Quality taxpayer service
- II     Taxpayer Advocate to help taxpayers in the preservation of their rights
- III    Taxpayer education and information
- IV    A fair collection process
- V     Appointed hearing time and representation
- VI    Demand Notices
- VII   Warrants for collection of tax
- VIII   Judgement liens against property
- I X    Annual Public Hearing and Department Report
- X     Taxpayer responsibilities

## SIGNIFICANT COURT CASES



### ***The Estate of Theodore F. Hagerman v. Indiana Dept. of State Revenue*** **771 N.E.2d 120 (Ind.Tax 2002)**

The Estate of Theodore F. Hagerman appealed a probate court ruling that the Estate had failed to make a valid Qualified Terminable Interest Property (QTIP) election. Under IC 6-4.1-2-4(d), the QTIP election allows the payment of inheritance tax to be delayed until the surviving spouse of the decedent dies. To qualify for the QTIP, the Tax Court noted there must be a writing that manifests “an affirmative, unequivocal intent to elect Indiana QTIP treatment.” Regulation 45 IAC 4.1-3-5(b)(4) provides the “form and content” that QTIP election must “substantially” follow. The Tax Court held that the Estate did not “attach a written election to the inheritance tax return that was substantially similar in form and content to that set forth” by 45 IAC 4.1-3-5(b)(4). Instead of substantially complying with the “form and content” of the regulation, the Estate “buried” the required writing on the schedule of beneficiaries. The Tax Court held for the Department, noting that the Estate failed to make “an affirmative statement that the election was being made pursuant to Indiana Code Section 6-4.1-3-7,” and that there was “no statement of understanding that the election was irrevocable, and no signature on the asserted election.” The Court also stated that even if it found the regulation was invalid, that nonetheless the Estate did not comport with the requirements of IC 6-4.1-3-7. On this point the Court highlighted the fact that it is “especially important” that an “affirmative, unequivocal expression of intent to elect QTIP status” be made. Regarding the other issue before the court—whether the Estate improperly deducted certain expenses on the inheritance tax return—the Court cited lack of ripeness for adjudication and thus declined to disallow the deductions.

### ***The Frame Station, Inc., d/b/a Framemakers IV v. Indiana Dept. of State Revenue*** **771 N.E.2d 129 (Ind.Tax 2002)**

One issue was before the Tax Court: whether or not the sale of custom framed art is taxable as a “retail unitary transaction.” Framemakers is in the custom framing business. Instead of paying in advance for the frame and framing service, Framemakers’ customers paid a “total price for the framing service and frame” upon final pick-up. Framemakers collected sales tax only on the frames, and not on the service. The Department argued that both the frame and the framing service were taxable as a “retail unitary transaction” under IC 6-2.5-1-1(a) and IC 6-2.5-4-1(e). The former statute defines a unitary transaction as including “all items of personal property and services which are furnished under a single order or agreement and for which a total combined charge or price is calculated.” The Tax Court characterized the latter statute, IC 6-2.5-4-1(e), as standing for “the imposition of sales tax on otherwise nontaxable services when the services are performed ... prior to the transfer of the property to the transferee.” Thus the Tax Court said the case turned on the timing of the framing service—was it “before or after” the frame was transferred to the customer? The Department argued, and the Tax Court agreed, that Framemakers “frames a customer’s art *before* it transfers the frame to the customer.” Since Framemakers’ customers paid for the framed art when they picked up the completed framing, the Court held that “Framemakers’ services are performed prior to the transfer of property and constitute taxable retail unitary transactions....”

***Bradley J. Rhoades v. Indiana Dept. of State Revenue***  
**774 N.E.2d 1044 (Ind.Tax 2002)**

In 1998, Indiana resident Bradley Rhoades bought a motor vehicle in Florida. Mr. Rhoades paid Florida's 6% sales tax on the vehicle at the time of purchase. Later that same year Mr. Rhoades titled the vehicle in Indiana, and was assessed Indiana's 5% use tax on the purchase price. The Tax Court noted that Indiana's use tax is "functionally equivalent to a sales tax" and elsewhere stated that the use tax statute is in place to "ensure that nonexempt retail transactions (particularly out-of-state retail transactions) that escape sales tax liability are nevertheless taxed." The Department relied on IC 6-2.5-3-5(b), arguing that the statute disallows a tax credit with regards to a vehicle "purchased in other states that are required to be titled for use in Indiana." The Court denied Rhoades's motion for summary judgment on the issue of use tax exemption. However, the Court did find Rhoades's other argument persuasive—namely, since he had already paid sales tax to another state, then Indiana's use tax on his out-of-state vehicle purchase runs afoul of the U.S. Constitution's Commerce Clause. The essence of Rhoades's argument was that "Indiana's use tax discriminates against interstate commerce" and constitutes multiple taxation since Rhoades in effect paid tax twice—6% Florida sales tax on the purchase price, and later an additional 5% Indiana use tax on the purchase price. The Court explained that a "state tax impermissibly discriminates against interstate commerce when the state's taxing power effectively increases the tax burden for out-of-state transactions, thereby coercing taxpayers to conduct intrastate rather than interstate business." The Court ascertained that this in fact occurred in Rhoades's case, since he was "effectively assessed tax on the purchase price of his vehicle at a rate of 11%," and held for Mr. Rhoades.

***Leland H. Stump v. Indiana Dept. of State Revenue***  
**777 N.E. 2d 799 (Ind.Tax 2002)**

Leland Stump bought two vans and had a company make handicap-use alterations to the vans (Mr. Stump is an amputee). The controversy before the court was whether Stump's purchase of "two handicap-modified vans are exempt from sales tax under Indiana's medical equipment exemption ... 6-2.5-5-18." The Department argued that only the "special handicap equipment" was exempt, but that the vans were not. Stump argued that both the vans and the handicap equipment were exempt. The Tax Court held that "[t]here is nothing inherently healing or remedial about a van that would make it appropriate only for handicapped people" and, elsewhere, that only the "special handicap equipment which enables Mr. Stump to continue to drive" is exempt under IC 6-2.5-5-18(a).

***1 Stop Auto Sales, Inc. v. Indiana Dept. of State Revenue***  
**779 N.E.2d 614 (Ind.Tax 2002)**

1 Stop is a vehicle dealership that offers "buy-here-pay-here" sales. Customers can buy a vehicle with "no money down" on an installment contract. Under that financing arrangement, no sales tax was collected from "Consumers on the purchase price of the vehicle at the time of the sale." Instead, 1 Stop loaned "the sales tax to the Consumers" and then remitted "the entire amount of sales tax due to the Department." If a purchaser defaulted on such a contract, 1 Stop characterized "the receivables from these contracts as uncollectible, or bad debt." Two issues were before the Tax Court. The first involved whether the Tax Court had jurisdiction over a 1993 claim for refund by 1 Stop. The Court found that 1 Stop filed its 1993 claim for refund nine months past the deadline and dismissed the claim. The second issue involved the bad debt deduction and whether 1 Stop was entitled to it under IC 6-2.5-6-9. 1 Stop argued "it is entitled to a bad debt deduction because it has remitted sales tax on retail sales for which it has not collected sales tax from the Consumers, and it has subsequently written those receivables off as bad debt for federal tax purposes." The Department argued, unpersuasively, that 1 Stop could not avail itself of the bad debt deduction "where it has loaned sales tax to the Consumers and not collected it." The Tax Court disagreed, finding that the Indiana Code "does not prohibit a retail merchant from loaning sales tax to a purchaser under a valid installment contract." The Tax Court also found the Department's estoppel argument failed, since the Form ST-108 did not "bar" 1 Stop from "claiming a bad debt deduction." Finally, the Court examined how to determine a bad debt deduction amount. The Court held that the "Department need only determine the amount of 1 Stop's Indiana receivables that it claimed as bad debt for federal tax purposes to determine the amount of its deduction under the [Indiana] Bad Debt statute" and remanded for the Department to determine 1 Stop's refund amount.

***Preston H. Ford v. Indiana Dept. of State Revenue***  
**779 N.E.2d 1274 (Ind.Tax 2002)**

Ford's case involved Indiana's Controlled Substance Excise Tax ("CSET"). Ford argued two things on appeal—that the CSET assessment violated the double jeopardy clause of the U.S. Constitution and that the Department "unreasonably delayed" holding his administrative tax hearing. The Tax Court rejected both arguments. The Court noted that the CSET assessment is "itself a judgment," but that the Department's jeopardy attached *before* Ford's criminal trial jeopardy attached. The Department's jeopardy attached "in December 1992 when the Department issued Ford the CSET assessment" and his criminal jeopardy attached "in 1994 when the trial court accepted Ford's guilty plea." The Court concluded that "[b]ecause Ford's CSET assessment was the first attachment of jeopardy, it did not violate his protection against double jeopardy." Regarding any delay in the hearing process, the Court stated that the "law provides no remedy for a delay of hearing ... nor does it expressly link the validity of a CSET assessment to the timing of a protest hearing."

***Enterprise Leasing Company of Chicago, et al., v. Indiana Dept. of State Revenue***  
**779 N.E.2d 1284 (Ind.Tax 2002)**

Enterprise Leasing involved various "nonresident corporations with corporate headquarters located outside of Indiana" which were in the motor vehicle leasing business. The lessees exercised "complete control over the use and location of the leased vehicles, including the right to designate an independent automobile dealer from which they can pick up their vehicles." Lessees bore the responsibilities of any repair work, insuring, licensing, and registering of the vehicles. The Court first examined whether Indiana "can tax the Petitioners' gross income earned as a result of the leases at issue," with the disagreement between the Department and the Petitioners turning on whether the gross income was "derived from 'sources within Indiana'" under IC 6-2.1-2-2(a). The Tax Court stated a three-part test for analyzing the derivation of gross income. The first part involves the "critical transaction" (i.e., to "isolate the transaction giving rise to the income"); the second part is the "business situs" (i.e., did "the Petitioners have a physical presence in, or significant business activities within" Indiana); and the third part, "tax situs" (i.e., figuring out "whether the Indiana activities are related to the critical transaction and are more than minimal ...."). The Court's reasoning and holding turned on part two—business situs. The Court stated that "ownership, leasing, or rental" must be *active* "for the establishment of a 'business situs' in Indiana." The Petitioners argued persuasively to the Court that they were "nothing more than passive participants in the ownership, leasing, and rental of property" within Indiana. Therefore the Court held the Petitioners' "income is not subject to Indiana's gross income tax." The Court also examined the issue of the Petitioners' property factor numerators. The Department's contention was since the "Petitioners owned the leased vehicles, they were properly included in the Petitioners' property factor numerators" per IC 6-3-2-2(c). The Court disagreed with the Department's interpretation of IC 6-3-2-2(c), finding that the "legislature intended that property 1) be owned or rented by the taxpayer; and 2) be used by the taxpayer in Indiana."

***U-Haul Co. of Indiana, et al., v. Indiana Dept. of State Revenue***  
**784 N.E.2d 1078 (Ind.Tax 2002)**

The Petitioners in this case were comprised of several different U-Haul Companies, which rent various moving equipment. The Tax Court put the issue before it as whether the Petitioners were "liable for gross income tax on 100% of rental amounts when they did not receive 100% of these amounts." The Court stated that the "U-Haul System" is: Fleet Owners; Rental Companies (the Petitioners' comprised this group); Rental Dealers; and U-Haul International (UHI). Under the U-Haul System, the "four groups are bound together through a series of contractual relationships" and "each member of the U-Haul System receives only a percentage of the total rental receipts collected by the Rental Dealers from the public." Additionally, the "form, terms, and conditions of all contracts" were controlled by UHI. The Petitioners paid gross income tax on "their contractual percentage of the rental amount collected by the Rental Dealers located in their Indiana territories." The Petitioners theory was that they were "not liable for gross income tax on 100% of rental amounts because they themselves did not have a beneficial interest in 100% of the rental amounts." The Tax Court examined several statutes, along with the relationship of the Petitioners to the Rental Dealers, and the Petitioners to UHI. The Court agreed with the Department that the Rental Dealers "collected rental amounts as agents" for the Petitioners, but the Court quickly noted the "Petitioners, in turn acted in an agency capacity." The Court reached that conclusion by examining the fact that, among other things, UHI "specified the terms and conditions of the Petitioners' contracts

with Rental Dealers.” Thus the Court found that the Petitioners were “subject to UHI’s control.” The Court held against the Department, stating the “Petitioners do not have any right or beneficial interest in the rental amounts collected by the Indiana Rental Dealers beyond their contractually specified percentage” and that the Petitioners were a “conduit for the rental amounts to pass to UHI and did not have a beneficial interest in 100% of the rental amounts.”

***Subaru-Isuzu Automotive, Inc. v. Indiana Dept. of State Revenue***  
**782 N.E.2d 1071 (Ind.Tax 2003)**

The Tax Court stated that two issues were before it: (1) the propriety of adding back to Subaru’s adjusted gross income computation the property taxes that were, for federal tax, capitalized as inventory costs; and (2) whether IC 6-3-2-2.6 requires Subaru to make adjustments to Subaru’s “net operating loss by the amount of its adjusted gross income modifications each year it used its net operating loss.” The Department believed that Subaru had “incorrectly determined its Indiana AGI and supplemental net income tax liabilities” for the years in question. The Court further noted that the Department determined “that when Subaru calculated its Indiana tax liabilities, it failed to add back the property taxes it had capitalized as inventory costs for federal tax purposes” and additionally the Department “maintained that Subaru had erroneously calculated its net operating loss (NOL) deductions.” Subaru argued that inventory costs were exclusions from gross income, and therefore that “its capitalized property taxes are *not* deductions from gross income and are therefore are not subject to the federal deduction add-back” portion of IC 6-3-1-3.5. The Department argued “deduction” in the Indiana Code “encompasses both exclusions *and* deductions taken for federal tax purposes.” The Court held that the Department was “incorrect.” The Court stated that “Article 3 of Indiana’s tax code incorporates by reference provisions of the Internal Revenue Code” and that “[f]ederal law clearly draws a legal distinction between an exclusion from gross income and a deduction from gross income.” Since federal law views the capitalized property taxes as exclusions, they were “not subject to the deduction add-back provision” of the Indiana Code. Regarding the NOL issue, the Court again found for Subaru, holding that IC 6-3-2-2.6(b) “instructs corporations to apply the AGI modifications required under” Indiana law “for the year in which each NOL was *incurred*, not the year each NOL was used.”

***Indiana Dept. of State Revenue v. Interstate Warehousing, Inc.***  
**783 N.E.2d 248 (Ind.2003)**

Interstate Warehousing (“Interstate”) runs warehouses that use “electricity to liquefy ammonia” to refrigerate the perishables stored at the warehouses by Interstate’s customers. Interstate argued that it should not have to pay taxes on the electricity it purchased for refrigeration. The Indiana Supreme Court examined Interstate’s use of liquid ammonia for refrigeration purposes, noting that Interstate used a “closed loop distribution system to lower the temperature of the air in the storage rooms.” Interstate “charges its customers based on the temperature that is required to be maintained in the refrigerated storage area and the quantity of perishables that the customer delivers.” The Supreme Court ruled against Interstate, finding that it was not “engaged in the ‘production of other tangible personal property’” and that it was not “in the business of ‘manufacturing, processing, refining, ....’” The Court noted that Interstate provided a service and did not make a “distinct marketable good.”

***1 Stop Auto Sales, Inc. v. Indiana Dept. of State Revenue***  
**785 N.E.2d 672 (Ind.Tax 2003)**

Upon 1 Stop’s request the Tax Court revisited the issue of the determination of the bad debt deduction amount under IC 6-2.5-6-9. In the first 1 Stop case the Court had stated that the “Department need only determine the amount of 1 Stop’s Indiana receivables that it claimed as bad debt for federal tax purposes to determine the amount of its deduction under the [Indiana] Bad Debt statute.” The Court clarified that earlier position, stating now “for the purposes of Indiana’s Bad Debt statute, 1 Stop may deduct an amount equal, in part, to the amount of its uncollectible Indiana receivables it removed from its books as a loss for federal tax purposes, not merely the amount it deducted as federal bad debt.” On August 1, 2003, the Indiana Supreme Court granted the Department’s Petition for Review of this decision (Cause No. 49-S-10-0308-TA-358).

## AREAS OF RECURRING TAXPAYER NONCOMPLIANCE

### RETURNS PROCESSING CENTER (RPC)

*The primary goal of the Returns Processing Center is to insure that all returns and payments are received, processed and posted in a timely and accurate manner. New technology is constantly being developed to facilitate this process. Although the Department receives a greater number of returns and payments electronically each successive year, it still processes over six million paper returns for 43 different tax and fee types -- and, it continues to have problems with the following areas of recurring taxpayer noncompliance.*

#### Use of Non-Department Payment Coupons

Each year the Department provides preprinted coupon vouchers to taxpayers who are registered with the Department and have a previous history of filing coupons. Relevant tax types include: sales tax, withholding tax, estimated tax for both individuals and corporations, and various other taxes and fees. Each month, the Department receives several thousand payments without coupons, some with handwritten information on pieces of paper, coupons from prior filing periods with handwritten changes to fit the time periods for which the taxpayers are trying to file, or payments with no explanation at all. In addition, the Department receives numerous coupons generated by tax preparation software that cannot be processed by its automated equipment. These coupons have to be manually processed, which takes longer and causes payments to taxpayers' accounts to be delayed.

#### Post Filing Coupon (PFC)

The following is a list of recurring problems the RPC encounters during the processing of the Indiana PFC that foster the erroneous issuance of tax notices and hinder the Department's ability to process payments quickly and accurately. (The PFC is used for the payment of additional tax on the Indiana Individual Income Tax Return.)

- 1) In order for scanning equipment to properly recognize taxpayers and the amount of payments, coupons must have the dollar amount and scanline in an "OCR-A Extended" font. Department personnel have noticed that the scanlines on coupons from at least three software vendors do not include the required font. Those software companies say that users (tax practitioners) are not downloading the font when they download the documents for printing. The Department has suggested that software companies "hard code" the required font into their documents for the scanline and dollar amount.
- 2) The Department has suggested that the software companies make the PFC available for all Individual Tax Forms, both paper and electronically-filed. It has also suggested that tax practitioners include the post filing coupon to speed up processing, whether payments are included with the return or submitted separately.

#### Failure to Complete All the Required Lines/Information

The Department receives numerous returns that are incomplete, which greatly delays the returns' processing. Department personnel must either complete the returns based on information provided, contact the taxpayers, or mail the returns back to the taxpayers for additional information. All of these options hinder the Department's ability to process returns quickly and efficiently.

#### Duplicate Returns

Some taxpayers file returns electronically but then file paper copies of the same returns with the Department, thus creating duplicate returns. The second returns received by the Department's computer system will "suspend," which means they must be reviewed individually by tax analysts, who have to make determinations on how, or if, the second returns should be posted to taxpayers' accounts.

#### Filing the Wrong Return

The Department receives numerous returns each year which are either 1) on the correct forms but for the wrong year, or 2) on the wrong forms but for the correct year. An example would be taxpayers' submitting IT-40EZ forms, even though they do not qualify for that form because of their type of income or deductions. In these cases, Department employees must determine the correct forms to be used and either attempt to transfer the



information to the correct forms, or return the incorrect forms to the taxpayers, along with copies of the correct forms for resubmitting.

Taxpayers who are residents of reciprocal states often file on Indiana Form IT-40 and take deductions of the other states' incomes, rather than filing the appropriate Indiana Form IT-40RNR (Reciprocal Nonresident).

#### Failure to Attach W-2 Forms

The Department receives a vast number of Individual Income Tax returns without W-2 forms to verify the withholding taxes taken as credits on the returns. Failure to submit W-2 forms causes the returns to be rejected and returned to taxpayers with requests for correct documentation.

#### Failure To Attach W-2 Forms with the WH-3

The WH-3 is a reconciliation of the W-2 forms for employers; both the WH-3 and all W-2 forms must be submitted together annually. The Department often receives WH-3 forms without W-2 forms attached. It also often finds cases of taxpayers changing business names during the year but continuing to file their taxes under their previous Identification Number, and then using the incorrect forms at the end of the year to submit their withholding information for the year. Although the Department provides for the filing of WH-3 and W-2 forms using magnetic media, few taxpayers take advantage of this technology.

#### Failure to Attach the Necessary Schedules

The Department finds that taxpayers often take deductions or credits on their tax returns, but fail to include documentation or necessary schedules to substantiate the deductions or credits being taken (e.g., College Credit, Form CC-40).

#### Failure to Comply with Enterprise Zone Deduction

Taxpayers who live in Enterprise Zones and work for qualified employers in those zones may be qualified to take the Enterprise Zone Deduction. The deduction is one-half (1/2) of the earned income shown on Form IT-40QEC, or \$7,500, whichever is less. Often the deductions are calculated incorrectly, or Form IT-40QEC, which should be completed and submitted by the employers, are not attached to the taxpayers' Forms IT-40.

#### IT-9, Extension Payment Voucher

Taxpayers file Form IT-9, even though no tax is due; or, they file the form, showing taxes due, but fail to include a payment.

#### Penalty for Underpayment of Estimated Tax

Taxpayers who don't have taxes withheld from their income and/or don't pay sufficient estimated taxes throughout the year often owe penalties for underpayment of estimated taxes. Generally speaking, taxpayers who owe \$400.00 or more in state and county taxes for the year but do not have taxes withheld from paychecks need to make estimated tax payments during the year.

#### Failure to Calculate County Tax

Often taxpayers fail to compute their county taxes. If, on January 1 of the tax year, taxpayers lived and/or worked in Indiana counties that have such taxes, they must figure their county taxes. Failure to calculate county taxes due may delay processing of their returns.

#### Improper Completion of County Boxes

Some IT-40's are received with "00" inappropriately marked in the county boxes. (An example is "00" entered in the spouse boxes for a single taxpayer.) The Department's computer system recognizes "00" as meaning a non-reciprocal, out-of-state county.

#### Fuel Tax -- Common Reporting Errors

A review of previously-filed special fuel and gasoline monthly tax returns has revealed the following most common reporting errors (on Forms FT-1, SF701, MF360, SF900, SF401, MF600, SF801, SF-IVP and FT501, and Schedules 1A, 2A, 3A, 5 through 10, 501A, 501B and 501I):

- Return submitted without license/account number
- Return submitted without signature of person completing/filing return
- No payment submitted with a return that indicates an amount due
- Payment submitted but no return filed
- Missing schedules
- Incomplete information provided on schedules
- Transactions reported in the wrong month (All special fuel transactions must be reported in the month in which they occur.)
- Duplication of deductions on more than one schedule
- More than one fuel type reported on same schedule
- Export schedules not filed in duplicate as required
- Dyed fuel transactions reported on schedules designated as clear fuel
- Deliveries of special fuel with an Indiana destination misreported on export schedules
- Truck deliveries misreported on Schedule 6
- Computer generated forms/schedules that do not conform to Department requirements
- Not filing schedule correctly for dyed fuel use

#### Environmental Tax -- Common Reporting Errors

A review of previously-filed environmental returns has revealed the following common reporting errors (on Forms UST-1, HC-500, HW-020 and SW-100):

- Forms not signed
- No Federal I.D. Numbers/Social Security Numbers
- No checks with forms
- No forms with checks
- Payment amounts are different than amounts due
- Missing schedules
- Duplicate filing

#### Trust Taxes – Retail Sales and Use Tax and/or Withholding Tax

-Taxpayers fail to complete the entire ST-103 return and /or WH-1 and the annual WH-3. Each month, the Department receives thousands of incomplete returns. These returns cannot be automatically processed and are “suspended” until they can be manually reviewed, corrected, and posted to taxpayer accounts.

-Taxpayers do not use their complete Indiana Taxpayer Identification Numbers (TID Number) on forms and in correspondence. Indiana Taxpayer Identification Numbers use the 10-digit TID Numbers with the three-digit location number and do not drop leading zeros. Our processing system requires all 13 digits. If taxpayers have coupons with 10-digit TID Numbers, the three-digit location number, and then a single-digit, they may drop the 14<sup>th</sup> digit.

-Taxpayers send in photocopied returns being used for other time periods or other taxpayers. The information in the scanlines on preprinted returns determine where that return is credited or posted. Thousands of returns each year are improperly posted due to this error, and invalid liability notices are issued to taxpayers.

-Taxpayers are not using the Change Form if their business locations have closed and the business registration at the Department needs to be permanently closed. This form is included in the coupon booklet. Taxpayers need to check the box located under the space for telephone number and enter the close date. This would be used if that specific location has PERMANENTLY CLOSED (no longer in business). This should not be used if closing temporarily (such as a seasonal business).

-On business tax applications, taxpayers should be sure to include their township information. This information is required; the form cannot be processed without it. Township information is used by the Department to comply with annual Departmental reporting requirements.

-When filing amended returns, taxpayers are not clearly marking the top of the form to state “AMENDED” returns.



### Corporate Income Tax

-When claiming withholding credits on IT-65 or IT-20S, taxpayers are not attaching the WH-18's to income tax returns as verification of the credits claimed. Credits without this verification cannot be allowed.

-Taxpayers are not answering the question — "Is an extension of time to file attached?" — on their Indiana corporate returns (e.g., IT-20, IT-20S, IT-65) when state or federal extension forms are attached.

### Electronic Funds Transfer (EFT)

-EFT taxpayers are not in compliance with the recap filing requirements when they do not file quarterly recaps. Failure to comply may result in delinquency notices issued to taxpayers.

-Some EFT filers do not understand that remitting by EFT does not change due dates of tax payments.

-Once registered for EFT filing, taxpayers receive quarterly recaps and assume their due dates are now quarterly. Filing quarterly results in penalties and interest assessments for the first two months of the quarter.

### Electronic Filing

The Department is still receiving hundreds of Indiana Form IT-8453 mailed in by the Electronic Returns Originator (ERO) or by the taxpayer. For the Federal/State E-File Program, Indiana requires that this form be kept and maintained by the ERO. For both the Federal/State On-Line Filing Program and the Indiana I-File Program, the form is to be kept and maintained by the taxpayer.

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## **COMPLIANCE DIVISION**

### AERONAUTICS/TAX CLEARANCES SECTION

The Aeronautics Section mailed 5,120 aircraft registration renewals for the calendar year 2002 with 155 owners in delinquent status as of December 2002. This translates into a 97% renewal compliance rate which is an increase of three percent in compliance over last year.

Indiana Code 6-6-6.5-2 states that any Indiana resident who owns an aircraft must register the aircraft within thirty-one (31) days from the purchase date. Any nonresident who bases an aircraft in this state for more than sixty (60) days shall register the aircraft with the Department no later than 60 days after establishing a base in Indiana.

### Corporate Dissolutions, Reinstatement Certificates of Clearance, Grant Clearances and Letters of Good Standing

This section has received 3,306 notices of corporate dissolution. Indiana Code 6-8.1-10-9 provides that any corporate officer or director becomes personally liable for all taxes, penalties, interest, and fees associated with the collection of liabilities for a period of one year from the date the Department is notified of the corporation's dissolution. The corporate officers or directors become personally liable because the dissolving corporation distributed corporate assets before all liabilities were satisfied. Corporate officers or directors may be absolved of any personal liability by obtaining a Certificate of Clearance from the Department. The Certificate of Clearance certifies that all liabilities due the Department have been satisfied.

Corporations that are administratively dissolved by the Secretary of State's office for noncompliance must obtain a Reinstatement Certificate of Clearance from the Department verifying the corporation is in good standing before they can be reinstated with the Secretary of State. The Department issued 1,777 Certificates of Clearance and denied or closed 574 requests due to outstanding issues.

Corporations in the process of obtaining financial loans or other state agency grant or award approval will request a Letter of Good Standing. The Department has issued 588 Letters of Good Standing and denied 251 requests due to missing returns or unpaid liabilities.

Over 4,500 Responsible Officer Billings were generated for trust taxes not paid by the corporation representing

a total due of \$8,104,178. Fifty-seven percent of the responsible officer billings were created for the Audit Division-Operation Street Sweep Project.

### **BANKRUPTCY SECTION**

The bankruptcy section reviewed 50,034 Chapter 11, Chapter 7 and Chapter 13 bankruptcy notices to determine if holds needed to be placed on outstanding liabilities to prevent the Department from being in violation of the automatic stay and to see if a claim needed to be filed with the bankruptcy court based upon outstanding liabilities and/or non-filed tax returns. Of the notices reviewed, claims were filed totaling \$241,047,533.30. Of the preexisting cases, claims were amended reducing the assessments by \$152,106,728.19. This makes the net assessments for the fiscal year ending June 30, 2003 \$88,940,835.11.

The bankruptcy section received and processed 7,063 payments totaling \$15,271,391.75. Of the payments received, 861 included additional interest totaling \$57,537.26.

This area also handled 12,789 incoming phone calls as well as 151,992 pieces of incoming correspondence. The section received and processed 4,157 previously unfiled tax returns due to bankruptcy proceedings.

The function of billing responsible officers was part of the bankruptcy section until mid-January during the fiscal year ending June 30, 2003. During this time, 14 responsible officers were billed for a total of \$1,503,804.79.

(See graphs on Bankruptcy Claims Filed, Gross Value of Claims and Collections on Pages 74-76.)

### **INDIVIDUAL/WITHHOLDING/CORPORATIONS TAX SECTION**

The Individual Income Tax Section's mission is to identify and pursue non-filers, as well as to verify the accuracy of filed returns by utilizing information from the Internal Revenue Service, various Indiana State agencies, other state taxing agencies, and anonymous informants. The standard compliance projects and findings for Fiscal Year 2003 are as follows:

#### **Federal Audits**

Information is obtained from the Internal Revenue Service concerning agreed federal tax audit reports to the Department. If taxpayers do not amend their Indiana Individual and Corporate income tax returns to report the Indiana adjustments resulting from the federal modifications detailed in the audit findings, a tax assessment is generated. For this fiscal year, 134 corporate taxpayers were billed for an amount of \$2,207,928.00 and 1,213 individual taxpayers for \$1,571,768.74.

#### **CP2000 Unreported Income**

The Department obtains data from the Internal Revenue Service regarding taxpayers who failed to report all taxable income. This could be income derived from wages, interest, dividends, or non-employee compensation. These types of income are reported on W-2's or Form 1099 information returns. An assessment is generated if the income was not reported on the original return. The project resulted in 7,181 taxpayer assessments for an amount of \$2,898,150.00

#### **Federal/State Crosscheck**

The Department obtains magnetic tape information from the Internal Revenue Service disclosing adjusted gross income and exemptions reported on the federal returns. This file is compared to the state reported adjusted gross and exemptions from our master file. Automatic billings are then generated for any state and county tax due on the differences. This project resulted in 12,228 taxpayers being assessed for an amount of \$4,128,954.00.

#### **Withholding Discrepancies**

A comparison is made between taxpayers' annual WH-3 Forms with the state and county withholding payments (from Form WH-1) made during the year. If underpayments exist, taxpayers are assessed the differences. The project resulted in 95 taxpayers being assessed for an amount of \$1,561,535.00.

#### **Individual Desk Audits**

Individual desk examinations are performed, based on anonymous sources or submissions from other divisions within the Department. The examination may consist of verifying income reported, credits/deductions taken, or

the amount of refund requested. Individual desk audit resulted in 390 assessments of \$457,386.00.

#### Voluntary Compliance Program

Taxpayers, who discover that they may have nexus with Indiana, but have not filed returns, frequently contact the Department and request to enter into a Voluntary Compliance Agreement. These taxpayers are often confused or unaware of filing requirements for income tax and sales/use taxes in Indiana. Tax due is not forgiven, nor is interest abated. Forty-eight (48) Voluntary Compliance Agreements were entered into for the fiscal year ending June 30, 2003, resulting in tax collected of \$3,158,329.00 and additional liabilities totaling \$690,222.00.

#### Riverboat Project

The Department of Revenue obtained information on Indiana riverboat winnings received during 1999 and 2000 from federal Form W-2G (Certain Gambling Winnings). Approximately 25,000 letters were mailed to those winners who did not report this taxable income to the State of Indiana, resulting in \$1,759,400 additional tax revenues being collected in Fiscal Year 2003. This project will continue to target riverboat gambling payouts made during 2001 through June 30, 2002, after which time new legislation began requiring state income taxes to be withheld at the time of payout.

#### Neighborhood Assistance Program

The total Neighborhood Assistance credits allowed in a fiscal year (July 1 to June 30) can not exceed \$2.5 million. The Indiana Department of Commerce verifies donations made to qualified Neighborhood Assistance Organizations. The Department of Revenue tracks the donations from various business entities allowing 50% of the allowable donation as a credit against gross income tax, adjusted gross income tax, or supplemental net income tax. The Department has processed 3,729 tax credits for the fiscal year ending June 30, 2003.

#### **NONPROFIT/CHARITY GAMING/FIDUCIARY TAX SECTION**

This section is responsible for determining organizations' nonprofit status and for licensing qualified nonprofit organizations for bingo, festivals, raffles, door prizes and charity gaming nights. This section also licenses manufacturers and distributors to sell tip boards, punchboards and pull-tabs.

A total of \$4,102,375.00 in gaming fees were collected from the following licenses issued:

Annual Bingo	901
Charity Game Night	187
Door Prize	7
Festival	298
Raffle	627
Special Bingo	<u>164</u>
Total Licenses Issued	2,184

The following gaming license fees were collected:

Gaming License Fees	\$4,102,375.00
Manufacturers License	\$ 42,000.00
Distributors License	<u>\$ 116,000.00</u>
Total Fees Collected	\$4,260,375.00

During Fiscal Year 2003, the Charity Gaming Section conducted three training seminars, which were held in Plymouth, Indianapolis, and Madison. Approximately 337 representatives from nonprofit organizations attended these seminars, which covered the following topics:

- Legislative Change for Not-for-Profit Organizations
- Not-for-Profit New Application
- Not-for-Profit New Annual Report
- Not-for-Profit Sales Tax Exemption
- Unrelated Business Income

Revised Nightly Summary Report  
Use of Charity Gaming Proceeds  
Registration of Unlicensed Events  
Record Keeping and Retention Guidelines  
Festivals  
Fines and penalties  
Protest and Hearing Procedures

#### Future Charity Gaming Training and Education

The Department will be sponsoring six (6) training seminars throughout the state during the next fiscal year. These seminars will be held in Madison, Indianapolis, Fort Wayne, Terre Haute, Jasper and Michigan City. The topics for these seminars will be determined at a later date.

#### Fiduciary Tax Section

This section processed 43,314 fiduciary returns from 7/1/2002 to 6/30/2003 representing a total of \$14,339.760 in tax collected.

#### **CONSUMER USE TAX, UTILITY/TRUST/FUEL/SALES REFUNDS SECTION**

Utility exemption requests for sales tax numbered 4,440 applications for the year. Approximately 3,890 of the applicants qualified for 100% exemptions on their purchases of public utility services. These applicants were primarily government, nonprofit organizations and those companies engaged in manufacturing whose use of the utility was predominately for exempt purposes.

Approximately 250 business entities, such as restaurants and industrial processors, received less than total utility exemptions. These types of entities must pay sales tax on their utility bills to their vendors and then file annual refund claims for the amounts of exempt percentages allowable. Another 300 applications for exemption were totally denied as results of desk examinations. The most common reason for 100% denials was the failure of applicants to provide adequate information to support their claims.

Approximately 982 consumer use tax bills were issued. Use tax bills were generated as a result of obtaining information on doubtful exemption users, from information received from the Audit Division, the Bureau of Motor Vehicles and from other states authorized through our exchange of information agreements. The balance were received from out-of-state companies who either owe Indiana Use Tax or have collected Indiana Sales Tax from Indiana customers, but were not legally registered.

Approximately 2,999 fuel tax refund claims were processed during the year. These claims were filed by government entities, companies and individuals that paid Gasoline Tax and Special Fuel Tax on fuel used in an exempt manner.

Almost 3,000 trust tax claims were received in the Compliance Division. Of these, approximately 70% were examined within the section. The balance of claims were forwarded to other areas for final reviews.

# RECOMMENDATIONS FOR IMPROVING TAXPAYER COMPLIANCE AND DEPARTMENT ADMINISTRATION

## TAXPAYERS' CONCERNS AND SUGGESTIONS TO THE DEPARTMENT

On June 17, 2003, the Indiana Department of Revenue conducted its annual public hearing in accordance with the Indiana Taxpayer's Bill of Rights. In accordance with state statutes, State Revenue Commissioner Kenneth L. Miller presided over the meeting with representation from all divisions within the Department. Taxpayers were provided the option of attending the hearing in person or submitting written comments. As in past years, the notice of the hearing was contained in the IT-40 Individual Income Tax Booklet.

### Improvements

A taxpayer, who attended last year's hearing and is also a VITA volunteer, was in attendance this year to outline his concerns on several issues. He started by saying that he saw improvements from what was discussed last year, and offered further suggestions.

### Motor Voter

A taxpayer thought the inclusion of voter registration materials in the IT-40 booklet is a waste of money. He has only found one person over the last several years who needed the materials. The Department is required by statute to include the registration materials in those tax booklets that are mailed annually to taxpayers.

### Renter's Deduction

Some concern about the \$2,000 maximum renter's deduction was given. An example was used that if a couple lived apart because one spouse was working in another part of the state and renting an apartment, that couple would not be eligible for a renter's deduction for the apartment. Depending on the circumstances, that could be correct. As stated in the instructions for the IT-40 booklet, the rent must be for the "principal place of residence," which is defined as the place where a taxpayer has a true, fixed, permanent home and where a taxpayer intends to return after being absent.

### VITA Sites

Concern was expressed about VITA sites where taxpayers can receive free assistance in completing their individual income tax forms during tax season. At issue was either the abundance or lack of specific tax forms at libraries. One in particular ran out of key forms during the first week of tax season and had a large amount of forms that weren't essential. It was pointed out that all libraries are responsible for ordering their own forms. A review of the form orders by the library in question shows that they ordered numerous types of forms, but ordered fewer of the main forms, such as the IT-40, compared to other libraries in the area.

### Schedule 1

Questions arose about the need for Schedule 1 that accompanies the IT-40, the full-year individual income tax return. It appears, according to one taxpayer, that the only purpose for Schedule 1 for many taxpayers is the property tax deduction. With that in mind, the deduction should be moved to the return. In addition, it was suggested that Schedule 1 and Schedule D should be combined since they appear identical. It was pointed out that space on the IT-40 is at a premium. The good news is that the Legislature has agreed to eliminate information regarding the number of vehicles a taxpayer leases or owns. It is not known whether this will free up enough space to accommodate any additional lines. The Department will also review Schedule 1 and Schedule D.

### Electronic Filing Incentives

An inquiry was made as to offering incentives to encourage electronic filing. It was pointed out that electronic filing (including barcoded paper returns) was up from last year and that almost two-thirds of all returns from the last tax season were filed electronically. It was also noted that Congress was looking at federal legislation that would extend the due date for electronic returns past the traditional April 15<sup>th</sup> deadline. The effect of the pending federal legislation on the states was not known.

### Distribution of Tax Money

A letter was received from a Lake County taxpayer concerned that her tax money was going to pay for state workers and Indianapolis and was not being returned to her section of the state for education and public safety.

### Military Service Deduction

Another letter was received expressing “disappointment” in Indiana’s tax treatment of military personnel. The taxpayer “was very discouraged” to learn the Indiana only offered a \$2,000 deduction for active military service while the neighboring State of Illinois “offered an exemption for the full amount of active military pay.” The current deduction is equal to the actual amount of military income received (i.e. military pay, retirement pay and/or survivor’s benefits) or \$2,000 whichever is *less*. In addition, military income earned while in a combat zone may be exempt at the federal level. If that income is exempt for federal purposes, it will not be taxed for Indiana income tax purposes.

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## **IMPROVEMENTS IN THE TRAINING OF DEPARTMENT EMPLOYEES**

### **PERSONNEL DIVISION**

#### Overview

During the period of July 1, 2002, through June 30, 2003, the Training Team presented 91 classes to a total of 866 participants.

#### Accomplishments Highlights

Sessions were offered in the following topics:

- ABC’s of Discrimination for Employees
- Cultural Diversity
- Customer Service
- Myers-Briggs Type Indicator/Interpersonal Dynamics
- New Employee Orientation 101
- New Employee Orientation 102
- New Employee Orientation for Intermittent Employees
- Performance Appraisal
- RPS/AR
- Sexual Harassment Prevention for Employees
- Violence in the Workplace for Employees

New classes or newly revised classes included:

- ABC’s of Discrimination for Employees
- New Employee Orientation 102
- Sexual Harassment Prevention for Employees



## INDIANA TAX DESCRIPTIONS AND RECEIPTS

All amounts are in thousands. Percent (%) change reflects increase from FY02 to FY03, unless otherwise indicated.

### Aircraft License Excise Tax

Excise tax, due at the time of registration, is determined by weight, age and type of aircraft. All excise tax is distributed to the county where the aircraft is usually located when not in use.

FY93	—	FY97	\$ 377.6	FY01	\$ 513.8
FY94	\$ 413.2	FY98	\$ 381.8	FY02	\$ 548.9
FY95	\$ 395.6	FY99	\$ 392.9	<b>FY03</b>	<b>\$ 649.7</b>
FY96	\$ 404.4	FY00	\$ 430.0	CHANGE	18.4%

### Alcoholic Beverage Tax

Per gallon rates are based on the wholesale purchase of the following: beer, \$.115; liquor/wine (21% alcohol or more), \$.268; wine (less than 21% alcohol), \$.047; mixed beverages (14% or less), \$.047

FY93	\$ 33,224.5	FY97	\$ 33,942.4	FY01	\$ 36,597.8
FY94	\$ 33,974.9	FY98	\$ 33,087.8	FY02	\$ 37,458.3
FY95	\$ 33,590.2	FY99	\$ 35,148.9	<b>FY03</b>	<b>\$ 37,678.6</b>
FY96	\$ 33,847.8	FY00	\$ 36,240.5	CHANGE	0.6%

### Auto Rental Excise Tax

Rates are based on the gross retail income from the rental of a vehicle weighing less than 11,000 pounds for less than a 30-day period at a rate of 4%.

FY93	\$ 5,008.4	FY97	\$ 7,836.8	FY01	\$ 9,846.8
FY94	\$ 5,403.0	FY98	\$ 8,047.7	FY02	\$ 9,126.7
FY95	\$ 6,282.9	FY99	\$ 8,914.0	<b>FY03</b>	<b>\$ 9,500.9</b>
FY96	\$ 6,981.3	FY00	\$ 8,101.9	CHANGE	4.1%

### Charity Gaming Excise Tax

Tax based on the sale of pull tabs, punchboards and tip boards to qualified organizations licensed for charity gaming at a rate of 10% of the wholesale price. Remitted by the licensed distributor or manufacturer (not the organization).

FY93	\$ 581.0	FY97	\$ 1,194.3	FY01	\$ 1,521.0
FY94	\$ 780.5	FY98	\$ 1,222.7	FY02	\$ 1,382.5
FY95	\$ 967.7	FY99	\$ 1,313.1	<b>FY03</b>	<b>\$ 1,311.9</b>
FY96	\$ 1,008.1	FY00	\$ 1,211.1	CHANGE	-5.1%

### Cigarette/Other Tobacco Tax

Effective July 1, 2002, levied against cartons or packs of cigarettes and cigarette papers, wrappers and tubes at the following rates: pack of 20 cigarettes, \$0.555 (up from \$0.155); pack of 25 cigarettes, \$0.69375 (up from \$0.19375); other tobacco products, 18% of wholesale price (up from 15%).

FY93	\$ 110,278.4	FY97	\$ 128,420.3	FY01	\$ 120,827.4
FY94	\$ 113,380.3	FY98	\$ 127,969.1	FY02	\$ 123,214.8
FY95	\$ 123,025.6	FY99	\$ 127,634.1	<b>FY03</b>	<b>\$ 352,375.1</b>
FY96	\$ 123,720.2	FY00	\$ 125,151.5	CHANGE	186.0%

### Controlled Substance Excise Tax

Imposes a tax on illegally delivered, manufactured or possessed controlled substances. (Prescription pharmaceuticals are exempt.) Tax based on the weight and schedule of substance. Rates vary from \$3.50 to \$40.00 per gram. Once paid, a taxpayer who can remain anonymous is given a receipt for the tax which is valid for a specific time period. The payment of this tax does not legalize the controlled substance or the activity associated with it.

FY93	\$ 326.0	FY97	\$ 192.9	FY01	\$ 86.5
FY94	\$ 260.4	FY98	\$ 101.2	FY02	\$ 44.4
FY95	\$ 291.4	FY99	\$ 55.5	<b>FY03</b>	<b>\$ 82.5</b>
FY96	\$ 110.4	FY00	\$ 60.2	CHANGE	85.8%

### Corporate Income Taxes

Includes only adjusted gross income tax and six months of gross and supplemental net income taxes. The gross and supplemental net income taxes were rescinded, effective January 1, 2003. The adjusted gross income tax was increased from 3.4% to 8.5% on January 1, 2003.

FY93	\$ 669,403.8	FY97	\$ 924,048.3	FY01	\$ 842,546.3
FY94	\$ 866,840.5	FY98	\$ 950,488.6	FY02	\$ 687,877.6
FY95	\$ 896,846.2	FY99	\$ 1,006,572.4	<b>FY03</b>	<b>\$ 307,178.8</b>
FY96	\$ 911,725.7	FY00	\$ 950,323.9	CHANGE	- 55.3%

### County Adjusted Gross Income Tax

Tax determined locally for county residents or nonresidents whose principal place of employment is within a county which imposes the tax. Rates vary. (A county may adopt either the County Adjusted Gross Income Tax or the County Option Income Tax, but not both.)

FY93	\$ 194,984.4	FY97	\$ 243,561.6	FY01	\$ 308,062.2
FY94	\$ 236,400.0	FY98	\$ 254,264.0	FY02	\$ 343,479.4
FY95	\$ 228,824.4	FY99	\$ 265,759.0	<b>FY03</b>	<b>\$ 321,835.7</b>
FY96	\$ 236,047.2	FY00	\$ 284,537.8	CHANGE	-6.3%

### County Economic Development Income Tax

Tax determined locally for county residents or nonresidents whose principal place of employment is within a county which imposes the tax. Rates vary.

FY93	\$ 38,241.6	FY97	\$ 80,456.4	FY01	\$ 140,547.2
FY94	\$ 58,321.0	FY98	\$ 97,879.2	FY02	\$ 160,225.3
FY95	\$ 64,222.8	FY99	\$ 112,551.9	<b>FY03</b>	<b>\$ 146,937.1</b>
FY96	\$ 74,388.0	FY00	\$ 121,817.0	CHANGE	-8.3%

### County Innkeepers Tax

Tax determined locally at a rate not to exceed 5% of the gross income derived from lodging income. Tax may be collected either by the Department or locally through the county treasurer's office.

FY93	\$ 13,121.4	FY97	\$ 15,600.7	FY01	\$ 24,073.7
FY94	\$ 12,671.5	FY98	\$ 18,962.8	FY02	\$ 22,586.8
FY95	\$ 14,248.6	FY99	\$ 20,251.1	<b>FY03</b>	<b>\$ 24,043.4</b>
FY96	\$ 14,973.1	FY00	\$ 21,077.4	CHANGE	6.4%

### County Option Income Tax

Tax determined locally for county residents or nonresidents whose principal place of employment is within a county which imposes the tax. Rates vary. (A county may adopt the County Option Income Tax or the County Adjusted Gross Income Tax, but not both.)

FY93	\$ 223,934.4	FY97	\$ 314,942.0	FY01	\$ 437,437.3
FY94	\$ 245,808.1	FY98	\$ 344,646.5	FY02	\$ 497,555.7
FY95	\$ 275,462.7	FY99	\$ 368,343.2	<b>FY03</b>	<b>\$ 463,054.0</b>
FY96	\$ 285,327.6	FY00	\$ 394,089.4	CHANGE	-6.9%

### Estate Tax

Based on the difference between the State Death Tax Credit allowed at the federal level and the amount paid in state Inheritance Tax.

FY93	\$11,054.0	FY97	\$ 8,886.0	FY01	\$ 28,936.1
FY94	\$ 9,709.1	FY98	\$ 11,241.3	FY02	\$ 17,979.7
FY95	\$ 7,168.7	FY99	\$ 24,700.4	<b>FY03</b>	<b>\$ 32,264.5</b>
FY96	\$ 4,383.9	FY00	\$ 21,022.0	CHANGE	79.4%

### Financial Institutions Tax

Based on the federal adjusted gross income at a rate of 8.5% for businesses which are engaged in extending credit, leasing (when it is the economic equivalent of extending credit) or credit card operations.

FY93	\$ 100,425.6	FY97	\$ 100,682.9	FY01	\$ 55,594.3
FY94	\$ 108,077.2	FY98	\$ 95,967.3	FY02	\$ 63,644.4
FY95	\$ 100,742.9	FY99	\$ 81,883.8	<b>FY03</b>	<b>\$ 123,444.4</b>
FY96	\$ 122,142.0	FY00	\$ 79,365.8	CHANGE	94.0%

### Food and Beverage Tax

Tax determined locally for purchases of food and beverages at a rate of 1% of retail sales price.

FY93	\$ 18,947.8	FY97	\$ 22,239.9	FY01	\$ 26,438.9
FY94	\$ 20,670.1	FY98	\$ 23,683.5	FY02	\$ 27,859.6
FY95	\$ 20,452.6	FY99	\$ 23,574.1	<b>FY03</b>	<b>\$ 27,842.3</b>
FY96	\$ 21,341.0	FY00	\$ 26,021.0	CHANGE	-0.1%

### Gasoline Tax

The Gasoline Tax was increased from \$.15 to \$.18 per gallon on January 1, 2003 for all invoiced gallons of gasoline collected by the licensed distributor and added to the selling price.

FY93	\$ 406,508.5	FY97	\$ 443,869.2	FY01	\$ 493,684.2
FY94	\$ 420,237.5	FY98	\$ 455,569.6	FY02	\$ 480,808.9
FY95	\$ 430,807.7	FY99	\$ 466,427.9	<b>FY03</b>	<b>\$ 518,295.6</b>
FY96	\$ 437,096.3	FY00	\$ 464,152.8	CHANGE	7.8%

### Hazardous Waste Disposal Tax

Based on the amount of hazardous waste (as defined by statute) placed in a disposal facility or by means of underground injection at a rate of \$11.50 per ton.

FY93	\$ 2,512.0	FY97	\$ 2,390.1	FY01	\$ 1,542.5
FY94	\$ 2,733.3	FY98	\$ 2,603.0	FY02	\$ 1,304.5
FY95	\$ 2,634.8	FY99	\$ 1,744.7	<b>FY03</b>	<b>\$ 1,122.6</b>
FY96	\$ 2,575.5	FY00	\$ 1,770.1	CHANGE	-13.9%

### Individual Adjusted Gross Income Tax

Based on the federal adjusted gross income with numerous adjustments for individual residents, partners, stockholders in Subchapter S Corporations, trusts, estates and nonresidents with Indiana income sources at a rate of 3.4%.

FY93	\$ 2,412,471.9	FY97	\$ 3,197,117.8	FY01	\$ 3,779,805.4
FY94	\$ 2,541,895.1	FY98	\$ 3,433,445.9	FY02	\$ 3,540,819.1
FY95	\$ 2,767,743.1	FY99	\$ 3,699,316.6	<b>FY03</b>	<b>\$ 3,644,159.4</b>
FY96	\$ 2,966,265.7	FY00	\$ 3,753,339.5	CHANGE	2.9%

### Inheritance Tax

Based on the taxpayer class (transferee's relationship to deceased); property's taxable value; residency status; and situs of real and tangible property and intangible property.

FY93	\$ 91,146.7	FY97	\$ 106,470.1	FY01	\$ 134,748.2
FY94	\$ 88,604.6	FY98	\$ 113,141.7	FY02	\$ 123,905.6
FY95	\$ 98,886.3	FY99	\$ 124,011.8	<b>FY03</b>	<b>\$ 165,710.5</b>
FY96	\$ 93,767.2	FY00	\$ 119,198.1	CHANGE	33.7%

### Marion County Admissions Tax

Specific to the RCA Dome, Victory Field and Conseco Fieldhouse in Indianapolis for any sporting event at a rate of 5% of the admission price.

FY93	\$ 635.0	FY97	\$ 966.3	FY01	\$ 4,527.7
FY94	\$ 607.1	FY98	\$ 931.4	FY02	\$ 4,247.0
FY95	\$ 713.0	FY99	\$ 1,209.9	<b>FY03</b>	<b>\$ 4,457.0</b>
FY96	\$ 860.3	FY00	\$ 4,567.5	CHANGE	4.9%

### Marion County Supplemental Auto Rental Excise Tax

Based on the gross retail income from the rental of passenger motor vehicles and trucks in Marion County for less than a 30-day period at a rate of 2%. Revenue from the tax is paid to the Capital Improvement Board of Managers.

FY93	—	FY97	—	FY01	\$ 1,883.7
FY94	—	FY98	\$ 1,330.1	FY02	\$ 1,950.4
FY95	—	FY99	\$ 1,667.8	<b>FY03</b>	<b>\$ 1,772.5</b>
FY96	—	FY00	\$ 1,658.7	CHANGE	-9.1%

### Motor Carrier Fuel Tax

Per gallon rate of \$0.16 for all motor fuel used by commercial motor carriers operating on Indiana highways.

FY93	\$ 15,138.0	FY97	\$ 7,431.2	FY01	\$ 3,727.0
FY94	\$ 13,721.2	FY98	\$ 9,869.4	FY02	\$ 5,068.7
FY95	\$ 11,597.2	FY99	\$ 7,039.4	<b>FY03</b>	<b>\$ 5,186.2</b>
FY96	\$ 9,605.5	FY00	\$ 5,745.2	CHANGE	2.3%

### Motor Carrier Surcharge Tax

Per gallon rate of \$0.11 for all motor fuel used by commercial motor carriers operating on Indiana highways.

FY93	\$ 64,483.5	FY97	\$ 61,220.0	FY01	\$ 90,891.2
FY94	\$ 60,561.8	FY98	\$ 93,552.6	FY02	\$ 79,466.6
FY95	\$ 78,437.4	FY99	\$ 90,232.4	<b>FY03</b>	<b>\$ 79,540.8</b>
FY96	\$ 67,380.2	FY00	\$ 76,747.4	CHANGE	0.1%

### Motor Vehicle Excise Tax

Specific compliance program authorized by statute aimed at locating vehicles owned by Indiana residents and registered illegally out of state, thus avoiding State Vehicle Excise Tax. Based on the age and class of vehicle, plus penalty and interest for the time period vehicle is illegally registered. (Except for this program, Motor Vehicle Excise Tax is otherwise collected by the Bureau of Motor Vehicles.)

FY93	\$ 722.3	FY97	\$ 732.1	FY01	\$ 20.4
FY94	\$ 923.8	FY98	\$ 468.6	FY02	\$ 14.1
FY95	\$ 631.4	FY99	\$ 281.4	<b>FY03</b>	<b>\$ 10.9</b>
FY96	\$ 832.1	FY00	\$ 122.1	CHANGE	-22.7%

### Pari-Mutual Admission Tax

Imposed at \$0.20 for each person who pays an admission charge to a racetrack grounds or satellite facility. (*The following amounts have been verified by the Indiana Horse Racing Commission.*)

FY93	—	FY97	\$ 34.8	FY01	\$ 18.3
FY94	—	FY98	\$ 29.6	FY02	\$ 13.9
FY95	\$ 74.9	FY99	\$ 26.0	<b>FY03</b>	<b>\$ 9.7</b>
FY96	\$ 62.7	FY00	\$ 21.4	CHANGE	-30.2%

### Pari-Mutual Wagering Tax

A 2% levy is imposed on the total amount of money wagered on-line races and simulcasts conducted **at a permit holder's racetrack**. The tax is 2.5% of the total amount of money wagered on simulcasts from **satellite facilities**. (*The following amounts have been verified by the Indiana Horse Racing Commission.*)

FY93	—	FY97	\$ 3,450.2	FY01	\$ 3,534.3
FY94	—	FY98	\$ 3,499.1	FY02	\$ 3,537.4
FY95	\$ 1,397.7	FY99	\$ 3,648.5	<b>FY03</b>	<b>\$ 3,744.8</b>
FY96	\$ 3,211.9	FY00	\$ 3,751.7	CHANGE	5.9%

### Petroleum Severance Tax

Levied against producers or owners of crude oil or natural gas and imposed at the time these products are removed from the ground at a rate equal to the greater of either 1% of the petroleum value, or \$0.03 per 1,000 cubic feet for natural gas and \$0.24 per barrel of oil.

FY93	\$ 694.7	FY97	\$ 614.9	FY01	\$ 565.3
FY94	\$ 696.4	FY98	\$ 642.5	FY02	\$ 579.8
FY95	\$ 653.2	FY99	\$ 506.3	<b>FY03</b>	<b>\$ 382.9</b>
FY96	\$ 574.0	FY00	\$ 467.0	CHANGE	-34.0%

### Public Utility Tax (Railroad Car Companies/Railroads)

Based each year on assessments by the State Board of Tax Commissioners on the indefinite-situs distributable property of a railroad company that provides service within a commuter transportation district.

FY93	\$ 3,944.7	FY97	\$ 5,077.9	FY01	\$ 8,586.6
FY94	\$ 4,267.1	FY98	\$ 5,080.2	FY02	\$ 5,020.5
FY95	\$ 4,440.6	FY99	\$ 5,786.7	<b>FY03</b>	<b>\$ 5,815.5</b>
FY96	\$ 4,894.7	FY00	\$ 5,996.7	CHANGE	15.8%

### Riverboat Admissions Tax

Specific to any licensed riverboat on Indiana waterways at a rate of \$3.00 per person admitted. Collection of this tax began in December, 1995.

FY93	—	FY97	\$ 56,262.5	FY01	\$ 118,630.0
FY94	—	FY98	\$ 90,921.4	FY02	\$ 127,769.1
FY95	—	FY99	\$ 110,745.4	<b>FY03</b>	<b>\$ 80,553.4</b>
FY96	\$ 4,597.7	FY00	\$ 116,565.6	CHANGE	-37.0%

### Riverboat Wagering Tax

Effective July 1, 2002, if a licensed riverboat does not have flexible scheduling (dockside gaming), a tax of 22.5% (up from 20%) is levied against its adjusted gross receipts (total wagers, less payouts, less uncollected gaming receivables). If the boat has implemented flexible scheduling, the tax rate is graduated and ranges from 15% to 35%, depending on the adjusted gross receipts.

FY93	—	FY97	\$ 146,084.1	FY01	\$ 349,092.0
FY94	—	FY98	\$ 231,890.1	FY02	\$ 381,814.2
FY95	—	FY99	\$ 295,181.4	<b>FY03</b>	<b>\$ 586,437.0</b>
FY96	\$ 13,354.7	FY00	\$ 328,200.8	CHANGE	53.6%

### Sales and Use Tax

Effective December 1, 2002, the rate became 6% (up from 5%) on purchases of tangible personal property, public utility service and some rental transactions, which is collected at the retail level.

FY93	\$ 2,340,876.4	FY97	\$ 3,145,959.5	FY01	\$ 3,723,138.6
FY94	\$ 2,600,667.8	FY98	\$ 3,278,755.6	FY02	\$ 3,798,489.0
FY95	\$ 2,810,403.8	FY99	\$ 3,414,847.5	<b>FY03</b>	<b>\$ 4,210,262.5</b>
FY96	\$ 2,965,275.9	FY00	\$ 3,687,291.7	CHANGE	10.8%

### Special Fuel Tax

A license tax of \$0.16 per gallon imposed on all special fuel sold or used in producing or generating power for propelling motor vehicles.

FY93	\$ 108,162.2	FY97	\$ 147,552.8	FY01	\$ 151,335.7
FY94	\$ 125,911.3	FY98	\$ 151,245.0	FY02	\$ 170,308.4
FY95	\$ 124,399.8	FY99	\$ 161,779.4	<b>FY03</b>	<b>\$ 172,712.6</b>
FY96	\$ 143,727.0	FY00	\$ 186,794.0	CHANGE	1.4%

### Utility Receipts Tax

Effective January 1, 2003, the Utility Receipts Tax was imposed at 1.4% on gross receipts from retail utility sales.

FY93	—	FY97	—	FY01	—
FY94	—	FY98	—	FY02	—
FY95	—	FY99	—	<b>FY03</b>	<b>\$ 75,907.7</b>
FY96	—	FY00	—		

### MISCELLANEOUS FEES:

#### Aircraft Registration Fee

All Indiana aircraft are required to be registered with the Aeronautics Section of the Compliance Division where an annual \$10 registration/transfer fee is collected. An additional fee of \$20 or 20% (whichever is greater) of the unpaid excise tax is charged on all late registrations. There is also an annual aircraft dealers fee of \$25.

FY93	—	FY97	\$ 68.4	FY01	\$ 118.9
FY94	\$ 71.7	FY98	\$ 70.2	FY02	\$ 94.5
FY95	\$ 70.1	FY99	\$ 65.1	<b>FY03</b>	<b>\$ 76.5</b>
FY96	\$ 68.0	FY00	\$ 79.6	CHANGE	-19.0%



### Charity Gaming Licensing Fee

Licensing fee for qualified organizations is \$25 for the first license. Second license for the same charity gaming activity is based on gross receipts of previous event. Annual license for distributors is \$2,000. Annual license for manufacturers is \$3,000.

FY93	\$ 1,582.1	FY97	\$ 3,997.2	FY01	\$ 4,303.4
FY94	\$ 2,557.5	FY98	\$ 3,950.1	FY02	\$ 4,282.5
FY95	\$ 3,264.7	FY99	\$ 4,264.6	<b>FY03</b>	<b>\$ 4,208.7</b>
FY96	\$ 3,635.1	FY00	\$ 4,328.0	CHANGE	-1.7%

### Employment Agency Licensing Fee

A person, firm or corporation opening, operating or maintaining an employment agency must pay an annual \$150 fee for each license.

FY94	\$ 35.2	FY98	\$ 53.1	FY01	\$ 54.5
FY95	\$ 40.2	FY99	\$ 51.3	FY02	\$ 57.9
FY96	\$ 42.2	FY00	\$ 51.6	<b>FY03</b>	<b>\$ 49.7</b>
FY93	\$ 33.8	FY97	\$ 37.7	CHANGE	-14.2%

### Hazardous Chemical Fee

An annual fee is imposed on a facility which must submit to the state an emergency and hazardous chemical inventory form. Fees are \$50, \$100 or \$200, depending on the volume of hazardous chemicals present at the facility during the year.

FY93	\$ 644.8	FY97	\$ 650.5	FY01	\$ 511.3
FY94	\$ 655.8	FY98	\$ 623.1	FY02	\$ 573.4
FY95	\$ 653.8	FY99	\$ 576.4	<b>FY03</b>	<b>\$ 581.7</b>
FY96	\$ 652.2	FY00	\$ 546.2	CHANGE	1.4%

### International Registration Plan (IRP) Licensing Fee

Licensing fee for motor carriers based on miles driven in specific jurisdictions. (Formerly administered by the Bureau of Motor Vehicles.)

FY93	—	FY97	\$ 74,300.4	FY01	\$ 76,728.7
FY94	—	FY98	\$ 71,577.9	FY02	\$ 80,293.7
FY95	—	FY99	\$ 75,941.9	<b>FY03</b>	<b>\$ 82,395.1</b>
FY96	\$ 67,140.5	FY00	\$ 89,320.1	CHANGE	2.6%

### Oversize /Overweight Permit Fee

Various categories of permits for motor carriers that are issued for different periods of time, based upon a vehicle's specific dimension and /or size and the travel activity. Fees can range from \$10.00 to over \$400.00. (Formerly administered by the Indiana Department of Transportation.)

FY93	—	FY97	\$ 9,844.3	FY01	\$ 12,358.6
FY94	—	FY98	\$ 11,252.7	FY02	\$ 11,849.5
FY95	—	FY99	\$ 11,528.3	<b>FY03</b>	<b>\$ 11,041.1</b>
FY96	\$ 3,701.8	FY00	\$ 12,782.3	CHANGE	-6.8%

### Solid Waste Management Fee

Imposed on the disposal or incineration of solid waste in a final disposal facility within the state at a rate of \$.50 per ton of waste generated in the state. For solid waste generated outside the state, the rate is the greater of \$.50 per ton or the cost per ton of disposing the solid waste, including the tipping fees and state and local government fees, in the final disposal facility that is closest to the area in which the solid waste was generated, minus the fee actually charged for the disposal or incineration of the solid waste by the owner or operator of the final disposal facility.

FY93	\$ 3,896.1	FY97	\$ 4,494.4	FY01	\$ 4,318.0
FY94	\$ 3,421.0	FY98	\$ 4,623.0	FY02	\$ 4,320.3
FY95	\$ 3,789.6	FY99	\$ 4,612.7	<b>FY03</b>	<b>\$ 4,002.8</b>
FY96	\$ 3,850.6	FY00	\$ 4,516.8	CHANGE	-7.3%

### Underground Storage Tank Fee

An annual fee of \$200 per tank is imposed on owners of underground storage tanks. In addition, there is an annual registration fee of \$90 for each underground petroleum storage tank; and \$45 for each underground storage tank containing regulated substances other than petroleum. (*\*Beginning in July 1, 1997, the oil inspection fees increased from \$.0008 cents per gallon to \$.008 cents per gallon.*)

FY93	\$ 7,000.5	FY97	\$ 8,481.2	FY01	\$ 32,467.5
FY94	\$ 7,564.4	FY98	\$ 28,758.5*	FY02	\$ 24,306.6
FY95	\$ 8,344.3	FY99	\$ 26,409.5	<b>FY03</b>	<b>\$ 35,992.1</b>
FY96	\$ 6,580.6	FY00	\$ 27,709.5	CHANGE	48.1%

### Waste Tire Management Fee

A \$.25 tire fee is assessed on each new tire sold at retail and each new tire mounted on a vehicle at the time a vehicle is sold. Imposed on tires for self-propelled motor vehicles only.

FY93	—	FY97	\$ 1,333.2	FY01	\$ 911.8
FY94	\$ 869.2	FY98	\$ 1,253.6	FY02	\$ 613.8
FY95	\$ 1,304.1	FY99	\$ 1,963.8	<b>FY03</b>	<b>\$ 1,079.3</b>
FY96	\$ 1,266.7	FY00	\$ 3,203.6	CHANGE	75.8%

## AUDIT DIVISION STATISTICAL STUDY

*The following information is based on 100% of the audits completed, taxpayers assisted and special projects conducted during Fiscal Year 2003 and addresses the requirements set forth by IC 6-8.1-14-4(2).*

*See Page 60 for an index of exhibits and charts included.*

- Taxpayers Served in District Offices, Pg. 55
- Gross Income Tax Violations, Pg. 56
- Sales/Use Tax Violations, Pg. 56
- Corporate Adjusted Gross Income Tax Violations, Pg. 56
- Amounts of Tax Assessed, Pg. 57
- Industry/Business Most Frequently in Violation, Pg. 58
- Special Tax Violations, Pg. 58
- Miscellaneous Code Violations, Pg. 59
- Number of Years in Audit Period, Pg. 59
- Use of Professional Tax Preparation Assistance, Pg. 59
- Filing of Appropriate Tax Returns, Pg. 59

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### ● TAXPAYERS SERVED IN DISTRICT OFFICES

Taxpayer assistance is available in all district offices. Each office has a taxpayer assistance supervisor and assistant taxpayer assistance supervisor who perform taxpayer service functions as well as other office support responsibilities. One office has a field investigator who supports taxpayer assistance. The investigator also performs collection functions in the district. Contract employees are available during peak periods to support taxpayer assistance.

The "Taxpayer Assistance Report" (Exhibit A) provides the number of taxpayers assisted (in person and by telephone) and the amount of money collected and assessed in each office by the taxpayer assistance program. Exhibit A reveals that during Fiscal Year 2003 district offices assisted 143,307 taxpayers in person and 175,419 taxpayers through telephone contact. Total taxpayers served by the district offices are 318,726. The district office in Columbus served 26,550 taxpayers in person, the highest number of any district office. The Clarksville District Office served 22,599 taxpayers in person, the second highest total.

The Columbus District Office served 23,913 taxpayers by telephone while the Bloomington District Office served 23,122 taxpayers by telephone. This was the highest number of telephone contacts among the district offices, totaling 27% of total taxpayer telephone contacts. The Columbus District Office served a total of 50,463 taxpayers by telephone and walk-in assistance while Clarksville served 40,958 taxpayers by telephone and walk-in assistance.

"Taxpayer Assistance/Special Project Statistics" (Exhibit B) provides the number of hours devoted by field auditors in the district offices to assist taxpayers and conduct special projects. The exhibit reveals that 21,503 auditor hours were channeled in this direction.

## GROSS INCOME TAX VIOLATIONS

The most frequently violated gross income tax rule is 45 IAC 1.1-2-4. This rule defines taxable high rate income of utilities, display advertising, sale of real estate, rentals and extension of credit. Violations (49) of this rule accounted for 16.78% of all violations of the gross income tax rules in the statistics. Rule 45 IAC 1.1-2-4 was the third most violated rule in the 2001 report with 7.87%.

The second most frequently violated gross income tax rule is 45 IAC 1.1-2-5. This rule defines taxability of gross receipts from services. Rule 2-5 was inappropriately applied according to regulations affording taxpayers more exclusions from gross receipts. 45 IAC 1.1-2-5 produced 43 (14.73%) gross income tax rule violations. This rule was the most frequently violated gross income tax rule in the 2002 study (11.82%), 2001 study (16.03%) and 14.50% in the 2000 study.

Ranking third with 37 (12.67%) infractions of the gross income tax rule violations is Rule 45 IAC 1.1-2-2. This rule defines taxable low rate gross income of retail and wholesale sales, display advertising, dry cleaning and laundry service, rental of water softening equipment, rental of rooms, lodging, booths and similar accommodations and commercial printing. Rule 2-2 was the third most frequently violated rule in the 2002 study (9.09%). Refer to paragraph one in this category for 2001 data. For 2000, the third most violated rule was 45 IAC 1.1-1-10 at 8.85%. This rule defines receipts to mean the entire gross income or gross receipts received by a taxpayer, actually or constructively, without any deduction of any kind or nature.

## SALES/USE TAX VIOLATIONS

The most frequently violated sales and use tax rule is 45 IAC 2.2-3-20. Rule 3-20 states that if the seller of tangible personal property for storage, use or consumption in Indiana fails to collect the appropriate tax, the purchaser of such property must remit tax directly to the Department. This rule produced 545 violations (14.67%) of the sales and use tax infractions. In the 2002 study, Rule 3-20 accounted for 12.72% of sales and use tax infractions and also ranked first. In 2001, 45 IAC 2.2-6-8, which discusses the determination of a retail merchant's liability for a report period, was violated 14.92% or 614 times.

The second most frequently violated sales and use tax rule is 45 IAC 2.2-3-4. Rule 3-4 imposes use tax on "tangible personal property, purchased in Indiana, or elsewhere in a retail transaction, and stored, used or otherwise consumed in Indiana...unless the Indiana state gross retail tax (sales tax) has been collected at the point of purchase." This rule accounted for 378 infractions or 10.18% of sales and use tax statute violations. The second most violated sales and use rule in 2002 was 45 IAC 2.2-5-8 (11.25%) (explained in next paragraph) 45 IAC 2.2-3-20 (explained above) was the second most violated rule in the 2001 and 2000 studies accounting for 500 and 664 violations respectively.

The third most violated rule for the 2003 fiscal year is 45 IAC 2.2-5-8. Rule 5-8 clarifies sales and use tax by providing examples of taxable and nontaxable sales of manufacturing machinery, tools and equipment used in direct production and other activities. Failure of taxpayers to comply with this rule accounts for 363 or 9.77% of the sales and use tax infractions. Rule 5-8 ranked second in the 2002 study with 535 infractions. Rule 3-4 with 481 violations ranked third in violations in 2001 study. Rule 8 also ranked third in the 2000 study accounting for 447 infractions.

## CORPORATE ADJUSTED GROSS INCOME TAX VIOLATIONS

Corporate taxpayers violated adjusted gross income Rule 45 IAC 3.1-1-8 more than any other rule. This rule states that taxable income as defined in the Internal Revenue Code is modified in several ways to arrive at Indiana adjusted gross income. Violations (76) of this rule accounted for 14.10% of the total violations. Rule 1-8 was also the most violated rule in 2002 with 94 or 12.21% of total infractions and 2001 with 119 or 13.52% of total infractions. The 2000 report revealed Rule 1-97 ranked first for adjusted gross income infractions with a 22.00% violation rate. Rule 1-97 addresses returns and reports filed by withholding agents.

Rule 45 IAC 3.1-1-1 was the second most frequently violated rule under this study. This rule deals with determining Adjusted Gross Income for Individuals as defined in Section 62 of the Internal Revenue Code. These

violations (63) account for 11.69% of the total violations for 2003. 45 IAC 3.1-1-9 ranked second in the 2002 report with 10.26% of violations. Rule 1-9 discusses the net operating loss deduction in computing Indiana Adjusted Gross Income. 45 IAC 3.1-1-97 ranked second in the 2001 study with 115 violations accounting for 13.07% of the total violations.

The third most frequently violated rule is 45 IAC 3.1-1-9. Rule 1-9 is defined in the previous paragraph. Violations (61) of this rule accounted for 11.32% of the violations of adjusted gross income tax rules. The 2002 study revealed 45 IAC 3.1-1-97 ranked third with 72 (9.35%) of the violations. 45 IAC 3.1-1-9 was the third most violated rule in the 2001 study accounting for 90 or 10.22% of the violations of adjusted gross income tax rules. The 2000 violations of 45 IAC 3.1-1-9 also ranked third with 8.62%.

## AMOUNTS OF TAX ASSESSED

Exhibits C, D and E display the amount of assessments (refunds) and violations of the gross income tax, sales tax and adjusted gross income tax administrative rules, respectively. "Total assessments" for any tax type represent gross assessments less amounts refunded.

The amount assessed or refunded for each of the most frequent violations and the percentage of the amount to total net assessments are presented below:

### Gross Income Tax—Exhibit C:

	Amount Assessed	Percentage of All Assessments
45 IAC 1.1-2-4	\$ 4,191,733	19.45%
45 IAC 1.1-2-5	\$10,448,087	48.48%
45 IAC 1.1-2-2	\$ 204,995	.95%

### Sales/Use Tax—Exhibit D:

	Amount Assessed	Percentage of All Assessments
45 IAC 2.2-3-20	\$ 1,864,866	5.72%
45 IAC 2.2-3-4	\$ 7,683,162	23.57%
45 IAC 2.2-5-8	\$10,609,315	32.55%

### Corporate Adjusted Gross Income Tax—Exhibit E:

	Amount Assessed	Percentage of All Assessments
45 IAC 3.1-1-8	\$ 4,166,467	18.69%
45 IAC 3.1-1-1	\$ 418,944	1.88%
45 IAC 3.1-1-9	\$(6,531,316)	(29.30%)

## INDUSTRY/BUSINESS MOST FREQUENTLY IN VIOLATION

### Gross Income Tax

For the eleventh consecutive reporting period, taxpayers engaged in manufacturing most frequently violated the gross income tax rules. This group committed 72 violations or 24.66% of the total violations. The gross income tax rule most frequently violated by this group of taxpayers was 45 IAC 1.1-2-2. This rule defines retail and wholesale sales; display advertising; dry cleaning and laundering; rental of water softening equipment; rental of rooms and facilities; and commercial printing.

The second largest number of gross income tax violations was committed by taxpayers providing information, publishing, telecommunications, finance, rental, insurance, real estate, leasing and professional services. This group committed 69 infractions or 23.63% of the total violations for 2003. The most frequently violated rule of this group was 45 IAC 1.1-2-4.

### Sales and Use Tax

For the 2003 reporting period, repair, personal services and other services are the industries with the most infractions. They accounted for 854 violations or 22.99% of the total sales and use tax violations. The most frequently violated rule by these taxpayers was 45 IAC 2.2-3-20, which deals with remitting use tax on transactions where the seller does not collect the sales tax.

Wholesale, retail and transportation businesses had the second highest frequency of violations for the sales and use tax rules. There were 615 violations committed by this group representing 16.56% of the total violations. The rule most frequently violated by this group was 45 IAC 2.2-3-4, which imposes use tax on "tangible personal property, purchased in Indiana, or elsewhere in a retail transaction, and stored, used or otherwise consumed in Indiana...unless the Indiana state gross retail tax (sales tax) has been collected at the point of purchase."

### Adjusted Gross Income Tax

Repair, personal service and other service providers with 138 infractions, were the most frequent violators of adjusted gross income tax rules. This figure represents 25.60% of the total adjusted gross income tax violations. 45 IAC 3.1-1-1, which defines adjusted gross income for individuals in relationship to Section 62 of the Internal Revenue Code, accounted for the most infractions in this class.

The manufacturing industry ranked second in violation of the adjusted gross income rules. They committed 119 infractions or 22.08% of the adjusted gross income tax violations. 45 IAC 3.1-1-8 was the most violated rule by these industries. Rule 1-8 discusses modifications of taxable income defined in the Internal Revenue Code Sections to arrive at Indiana Adjusted Gross Income.

## SPECIAL TAX VIOLATIONS

Exhibit G provides the number of special tax rule violations and the amount of special tax assessments and refunds.

Article VIII (citation R800 on exhibit) of the International Fuel Tax Agreement (IFTA) was the most frequently violated special tax item in the study. It specifies the taxable event is the consumption of motor fuels in the propulsion of qualified motor vehicles, except fuel consumed that is exempt from taxation by a jurisdiction. All motor fuel acquired that is normally subject to consumption tax is taxable unless proof to the contrary is provided by the licensee. Article VIII was violated 190 times and yielded \$600,120 in net assessments for the State of Indiana. This represents 26.46% of total violations.

The exhibit also reveals that Article X (citation R1000 on exhibit) of the International Fuel Tax Agreement (IFTA) was the second most frequently violated section of the special tax statutes. This article discusses how taxpayers can obtain credit for tax previously paid on purchases of fuel at the pump. It also lists the records needed to substantiate the refund request. This article was violated 182 times accounting for 25.35% of the total violations. These violations resulted in a net refund of (\$12,902).



The taxpayer group most frequently in violation of the special tax statutes and IFTA Articles was the wholesale, retail and transportation industries. This group committed 417 violations accounting for 58.08% of the total infractions. Article VIII of the International Fuel Tax Agreement was most frequently violated by the wholesale, retail and transportation industries.

## **MISCELLANEOUS CODE VIOLATIONS**

Exhibit F provides the number of violations and assessment amounts of the following:

Financial Institutions Tax  
Tax Administration  
Food and Beverage Tax  
Innkeeper's Tax

A review of this exhibit reveals that IC 6-8.1-9-1 was violated 57 (18.45%) times in the 2003 study. This code section addresses filing claims for refunds, time limitations, hearings and appeals for refunds. These violations yielded (\$2,491,064) in net refunds. IC 6-8.1-4-2 was the most violated rule in the 2002 study with 24 (14.46%). This code section addresses access to accounting records of a business and the use of sampling techniques for auditing purposes. 45 IAC 15-9-2 was the most violated rule in the 2001 study. Rule 9-2 defines the statute of limitations as it applies to refunds.

The 31 violations of 45 IAC 15-9-2 yielded a total of \$279,085 in assessments. Rule 9-2 is defined above. Rule 9-2 was the second most violated citation in the 2002 and 2001 studies.

## **NUMBER OF YEARS IN THE AUDIT PERIOD**

The audit period consistently averages three years.

## **USE OF PROFESSIONAL TAX PREPARATION ASSISTANCE**

The services of professional preparers were used in the preparation of 75.50% of the corporate income tax returns and 11% of the sales tax returns. These findings remain consistent with the previous years' reports.

## **FILING OF APPROPRIATE TAX RETURNS**

Rule 45 IAC 3.1-1-92 (Exhibit E) requires qualifying corporations to make estimated tax payments. Taxpayers in violation of this rule either failed to file estimated income tax returns or failed to remit the appropriate amount of tax. For Fiscal Year 2003, the study indicates 8 violations of this rule, resulting in assessments in the amount of \$12,863 and refunds totaling (\$110,617).

Indiana Code 6-8.1-10-2.1 (Exhibit F) revealed no violations during the 2003 study period. This section specifies the penalty to be imposed if a taxpayer fails to file an appropriate return or pay the full amount of tax due. Violations of this section in the 2002, 2001, 2000 and 1999 studies were zero while the 1998 report showed one violation.

## **SPECIAL PROJECTS**

Two special projects were pursued during the 2003 Fiscal Year. One project identified taxpayers with delinquent filing periods. The second project identified delinquent taxpayers with outstanding Best Information Available liabilities. Examination of data generated by these projects identified and closed inactive business accounts; encouraged delinquent taxpayers to file correct returns; and collected substantial funds related to the filings.

Accounts Worked: 14,406      Accounts Closed: 3,425      Funds Collected: \$10,584,540

# EXHIBITS

## AUDIT DIVISION

Taxpayer Assistance Report -- District Offices	Exhibit A	Page 61
Taxpayers Served in District Offices		Page 61
Field Auditors Taxpayer Assistance/Special Projects	Exhibit B	Page 62
Standard Industrial Codes		Page 62
Dollars Assessed in 45 IAC Citations by Industrial Code Gross Income Tax Audits	Exhibit C	Pages 63
Gross Income Tax Violations by Industry Group		Page 64
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Adjusted Gross Income Tax Violations by Industry Group		Page 69
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Dollars Assessed for Miscellaneous Code Violations by Industrial Code	Exhibit F	Page 70
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Dollars Assessed in Code Article Citations by Industrial Code Special Tax Audits	Exhibit G	Page 72
Special Tax Violations by Industry Group		Page 73
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## COMPLIANCE DIVISION

BANKRUPTCY 20+ YEAR COMPARISON	
Claims Filed	Page 74
Gross Value of Claims	Page 75
Collections	Page 76

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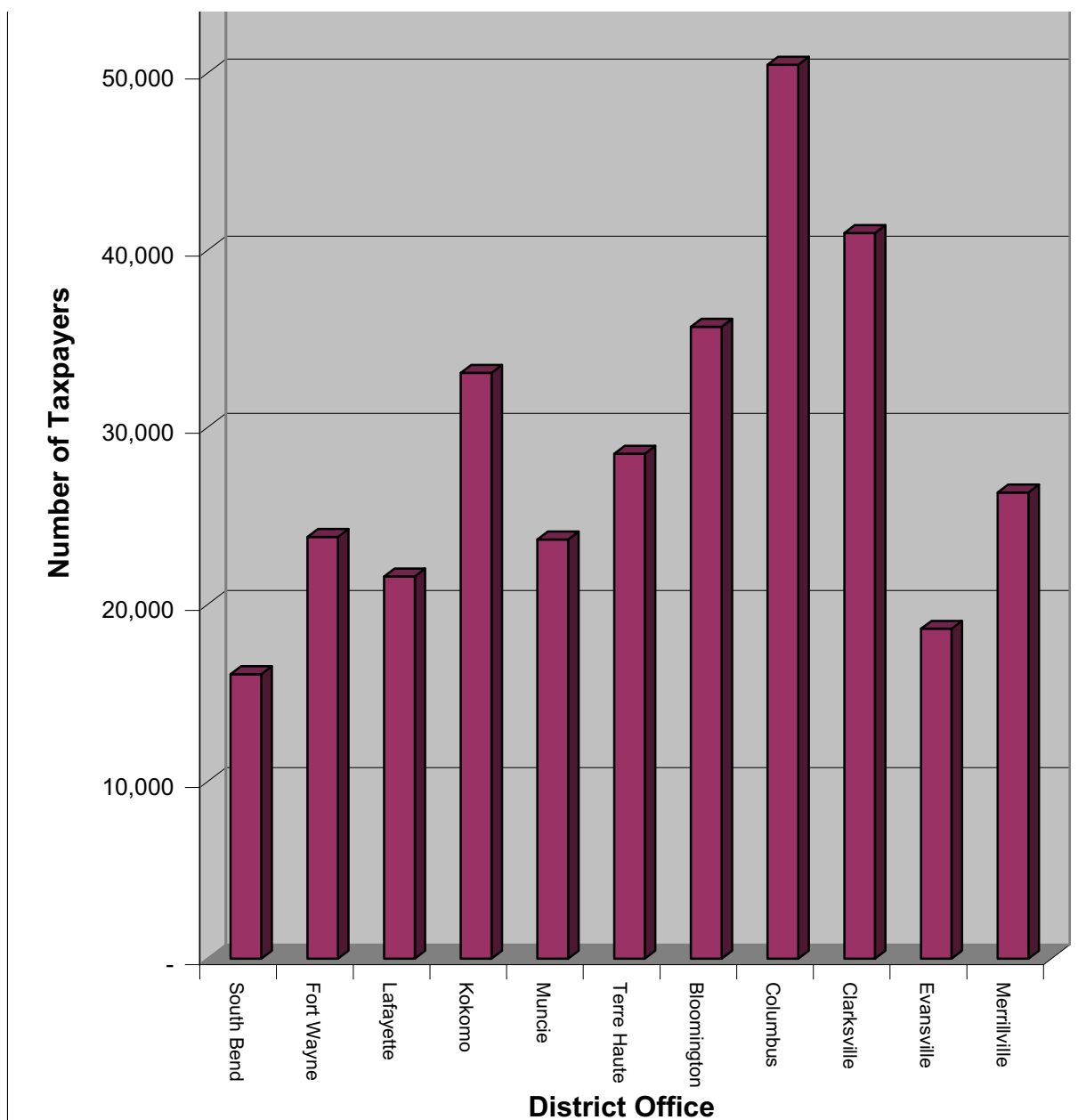
## 2002 INDIANA INDIVIDUAL INCOME TAX BREAKDOWN BY FILING METHOD

Page 77

# **EXHIBIT A** **TAXPAYER ASSISTANCE REPORT - FISCAL YEAR 2003** **AUDIT DIVISION DISTRICT OFFICES**

	South Bend	Fort Wayne	Lafayette	Kokomo	Muncie	Terre Haute	Bloomington	Columbus	Clarksville	Evansville	Merrillville	Totals
Walk-in Assistance	7,315	10,171	10,159	15,262	7,423	9,248	12,554	26,550	22,599	11,487	10,539	143,307
Telephone Assistance	8,745	13,641	11,421	17,815	16,237	19,254	23,122	23,913	18,359	7,139	15,773	175,419
Totals	16,060	23,812	21,580	33,077	23,660	28,502	35,676	50,463	40,958	18,626	26,312	318,726
Collected/Assessed	\$1,318,423	\$2,331,454	\$1,230,656	\$5,307,184	\$1,968,341	\$3,366,417	\$7,639,537	\$3,659,729	\$5,590,372	\$3,998,724	\$3,157,691	\$39,568,528

## **TAXPAYERS SERVED IN DISTRICT OFFICES**



## EXHIBIT B

### Field Auditors Taxpayer Assistance/Special Projects

		Total Hours
Region I	South Bend, Fort Wayne, Merrillville	5,881
Region II	Lafayette, Kokomo, Muncie	5,797
Region III*	Indianapolis	31
Region IV	Terre Haute, Bloomington, Columbus, Clarksville, Evansville	6,517
Region V	Out of State	20
Region VI	Special Tax Auditors	3,257
		21,503
Total		21,503

\* Represents special project only. Taxpayer assistance provided by Taxpayer Services Division .

This field auditor information was gathered using data from regional reports indicating hours charged to Administrative Special Projects and Administrative Taxpayer Services.

### ***STANDARD INDUSTRIAL CODES***

**The Standard Industrial Codes (SIC) used in the Audit Division reports and exhibits are based on the North American Industry Classification System (NAICS). Refer to the following text to explain the industry classification numbering system.**

<u>Class</u>	<u>Explanation</u>
1	Agricultural; Forestry
2	Mining; Oil and Gas Extraction; Construction
3	Manufacturing
4	Wholesale; Retail; Transportation
5	Information; Publishing; Telecommunications; Finance; Rental; Insurance; Real Estate; Leasing; Professional Services
6	Education; Health Services
7	Arts; Entertainment; Recreation; Food Service; Accommodations
8	Repair; Personal Services; Other Services
9	Public Administration

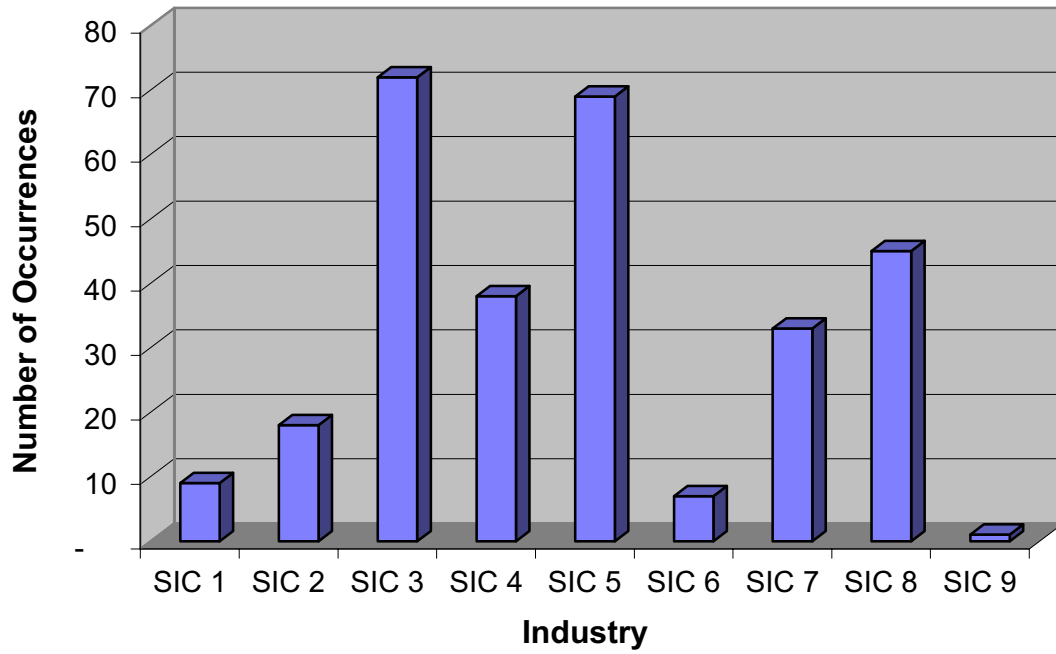
# Exhibit C

## Dollars Assessed in 45 IAC Citations by Industrial Code Gross Income Tax Audits

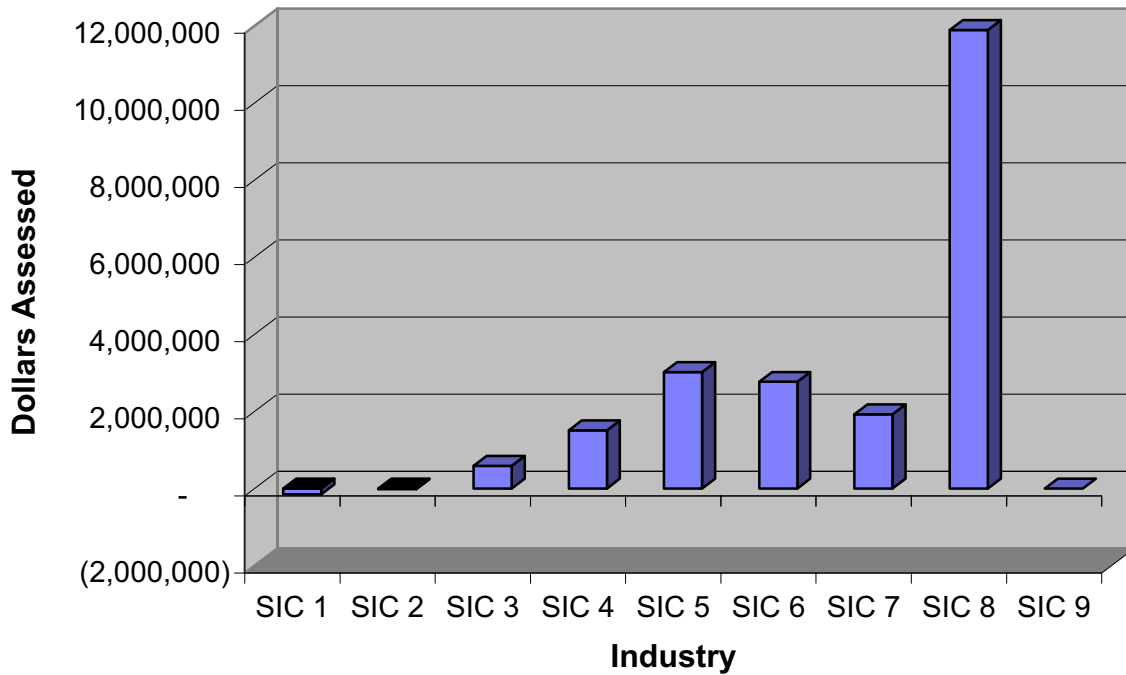
Sum of Results	SIC *								
Citation	1	2	3	4	5	6	7	8	9 Grand Total
45 IAC 1.1-1-10			4,156		20,588		(13,421)		11,323
45 IAC 1.1-1-11								110,194	110,194
45 IAC 1.1-1-116								(9)	(9)
45 IAC 1.1-1-18		464	35,823		5,002				41,289
45 IAC 1.1-1-2							113,237		113,237
45 IAC 1.1-1-20			348		(37,838)		(4,580)	2,642	(39,428)
45 IAC 1.1-1-21		6,151	1,170		351,083				358,404
45 IAC 1.1-1-22			2,349						2,349
45 IAC 1.1-1-23		11,371	(99,940)		12,896		780,684		705,011
45 IAC 1.1-1-24	10,256	13,049	6,224		5,825	1,242		8,160	44,756
45 IAC 1.1-1-3			(16,584)		235,527		83,896		302,839
45 IAC 1.1-1-4								24,774	24,774
45 IAC 1.1-1-5			(46,124)		4,237		63,069		21,182
45 IAC 1.1-1-6			(310,516)		54,908				(255,608)
45 IAC 1.1-2-1			101,340	29,829	(435,055)		(68,355)		(372,241)
45 IAC 1.1-2-10			1,049,640		1,687	1,602,015		344	2,653,686
45 IAC 1.1-2-12					62,912	(1,670)			61,242
45 IAC 1.1-2-13		48,634		45,812	489,260	6,377			590,083
45 IAC 1.1-2-15								26,208	26,208
45 IAC 1.1-2-19			41,383		63,600			561,781	666,764
45 IAC 1.1-2-2	(78,705)	17,474	(1,236,252)	738,114	83,395	11,018	64,687	605,264	204,995
45 IAC 1.1-2-20							32,264		32,264
45 IAC 1.1-2-4		(38,650)	93,995	1,096,305	1,139,610	1,149,811	25,610	723,491	4,191,733
45 IAC 1.1-2-5		17,443	258,804	358,797	(105,380)		849,076	9,069,347	10,448,087
45 IAC 1.1-2-6								49,022	49,022
45 IAC 1.1-2-8			536	69,325	129,454		112	35,754	235,181
45 IAC 1.1-3-1					(1,900)				(1,900)
45 IAC 1.1-3-11	(58,046)		14,286		(2,424)				(46,184)
45 IAC 1.1-3-12				(818,751)					(818,751)
45 IAC 1.1-3-3	(19,869)	(6,609)	691,602		(2,750)			(306,393)	355,981
45 IAC 1.1-3-6	626			1,140					1,766
45 IAC 1.1-3-9	(1,989)						805	45	(1,139)
45 IAC 1.1-4-1			6	(53)	(12)				(59)
45 IAC 1.1-4-2			(514)		1,669				1,155
45 IAC 1.1-4-5		(82,000)			405,434				323,434
45 IAC 1.1-5-7	1,251								1,251
45 IAC 1.1-5-8			317					844,740	845,057
45 IAC 1.1-6-1				13,034					13,034
45 IAC 1.1-6-2					536,293			137,149	673,442
45 IAC 1.1-6-6				(20,898)					(20,898)
Grand Total	(146,476)	(12,673)	592,049	1,512,654	3,018,021	2,768,793	1,927,084	11,892,513	21,553,526

\*See accompanying text for detail of SIC categories.

**Gross Income Tax Violations by Industry Group**



**Gross Income Tax Dollars Assessed by Industry Group**





## Exhibit D

### Dollars Assessed in 45 IAC Citations by Industrial Code Sales and Use Tax Audits

Sum of Results	SIC *								
Citation	1	2	3	4	5	6	7	8	9 Grand Total
45 IAC 2.2-1-1		15,230	4,635	66,322	68,339	1,101		18,383	(90) 173,920
45 IAC 2.2-2-1		57,594	3,557	8,943	6,257	1,250	(394,510)	14,143	(302,766)
45 IAC 2.2-2-2	62,359	7,108	51,654	275,538	56,876	1,375	44,186	84,213	583,309
45 IAC 2.2-2-3	571	1,663			(4,852)			173	(2,445)
45 IAC 2.2-3-11						33		94	127
45 IAC 2.2-3-12	11,550	34,794	8,016	7,857	31,883		1,624	176	95,900
45 IAC 2.2-3-13	133	(24,988)	663	8,639	14,544	(100)	14,414	5,838	19,143
45 IAC 2.2-3-14						(312)		267	(45)
45 IAC 2.2-3-15	327		6,246	19,868	36,278		10,292	(24,605)	48,406
45 IAC 2.2-3-16					35,901				35,901
45 IAC 2.2-3-17			2,548						2,548
45 IAC 2.2-3-18	4,972	2,645	17,333	5,859	46,427	113	1,468	2,579	81,396
45 IAC 2.2-3-19		5,023	455		22,901				28,379
45 IAC 2.2-3-2			746						746
45 IAC 2.2-3-20	26,739	124,329	85,869	313,736	281,322	54,039	742,184	232,748	3,900 1,864,866
45 IAC 2.2-3-21					4,288				4,288
45 IAC 2.2-3-22			250					1,051	1,301
45 IAC 2.2-3-25			(773)				367	1,958	1,552
45 IAC 2.2-3-26			26		204				230
45 IAC 2.2-3-27	(2,673)		23,353	12,815	8,335		7,836	594	50,260
45 IAC 2.2-3-3				3,004				5,037	8,041
45 IAC 2.2-3-4	11,777	60,379	266,423	2,566,998	2,568,319	57,474	361,227	1,784,468	6,097 7,683,162
45 IAC 2.2-3-5	3,666	1,650	36,956	1,540,586	141,581			61,475	1,785,914
45 IAC 2.2-3-6							2,194,602		2,194,602
45 IAC 2.2-3-7	200	1,262							1,462
45 IAC 2.2-3-8	670	18,057	3,497	(5,347)	33,785	38	85,342	1,028	137,070
45 IAC 2.2-3-9	77,890	(18,965)		25	6,907			26,128	1,464 93,449
45 IAC 2.2-4-1	2,199	7,637	60,139	690,108	122,327	422	232,282	80,834	1,396 1,197,344
45 IAC 2.2-4-11			768					475	1,243
45 IAC 2.2-4-13	(12,303)	6,949	(234,822)	63,679	(346)		(2,218)	(242,201)	(421,262)
45 IAC 2.2-4-14	14								14
45 IAC 2.2-4-2	(584)	2,683	(1,607)	22,930	191,175	(430)	91,961	13,841	319,969
45 IAC 2.2-4-20								4,459	4,459
45 IAC 2.2-4-21		(956)			6,986		185	109,953	116,168
45 IAC 2.2-4-22	96,324	20,757	2,617	38,097			33,825	23,095	214,715
45 IAC 2.2-4-23		236						4,293	4,529
45 IAC 2.2-4-24			377		165				542
45 IAC 2.2-4-25	1,750	1,536						8,965	12,251
45 IAC 2.2-4-26	198,021	73,191	2,021	5,246	1,176		1,871	42,675	324,201
45 IAC 2.2-4-27	(7,513)	39,468	82,133	27,545	262,281	1,087	63,781	143,955	2,105 614,842
45 IAC 2.2-4-28		6,806			20			1,004	7,830
45 IAC 2.2-4-29							2,091		2,091
45 IAC 2.2-4-3			(25)	409	702		(3,723)	(1)	(2,638)
45 IAC 2.2-4-31				135,696	26,059		62		161,817
45 IAC 2.2-4-32					9,474				9,474
45 IAC 2.2-4-33			30						30
45 IAC 2.2-4-34		(181)							(181)
45 IAC 2.2-4-4			22,487					17	22,504
45 IAC 2.2-4-6								15,470	15,470
45 IAC 2.2-4-8	610	190	342	1,621	5,329	25	65,888	(144,469)	(70,464)
45 IAC 2.2-4-9					208			4,515	4,723
45 IAC 2.2-5-1		4,839	1,010						5,849
45 IAC 2.2-5-10			(102)		200			5,756	5,854
45 IAC 2.2-5-11	(96)								(96)
45 IAC 2.2-5-12	1,476	11,095	(29,781)	(473)	(186)		(872)	234,628	215,887

\*See accompanying text for detail of SIC categories.

(Cont. on Pg. 66)

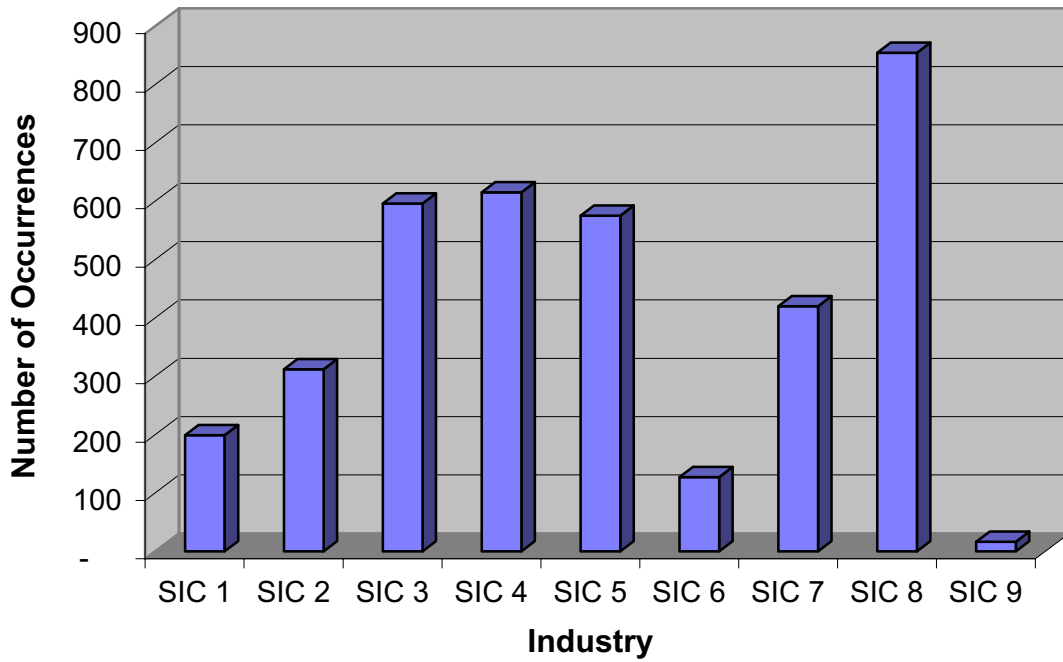
## Exhibit D (Cont. from Pg. 65)

### Dollars Assessed in 45 IAC Citations by Industrial Code Sales and Use Tax Audits

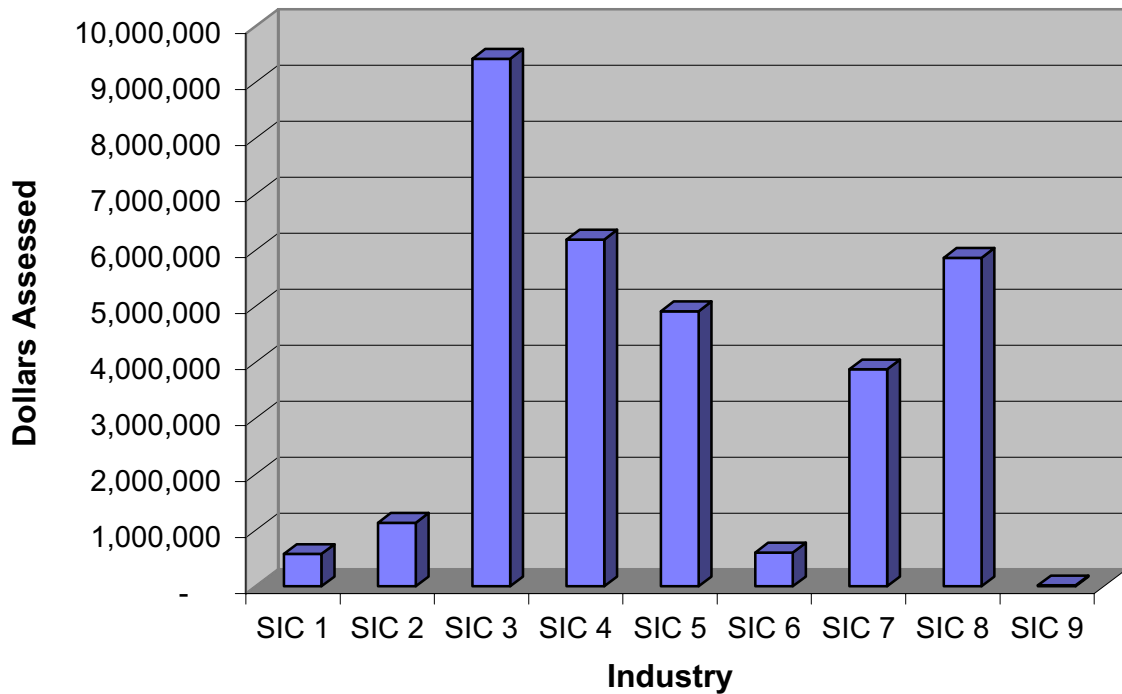
Sum of Results	SIC *								
Citation	1	2	3	4	5	6	7	8	9 Grand Total
45 IAC 2.2-5-13	363			2,134					2,497
45 IAC 2.2-5-14	(911)	(1,128)	(1,758)	(2,465)			(2,214)	12,150	3,674
45 IAC 2.2-5-15	(28,438)	26,590	1,065	(10,592)	(6,582)	(8,972)	(9,606)	11,366	(25,238)
45 IAC 2.2-5-16	456	(93)	10,248	(1,393)	1,535		(4,563)	(17,427)	(11,237)
45 IAC 2.2-5-20						473	329	(69,005)	(68,203)
45 IAC 2.2-5-24	(1,949)								(1,949)
45 IAC 2.2-5-26	727	2,401	5,442	2,075	10,356	15,741	4,042	3,466	44,250
45 IAC 2.2-5-27						1,478			1,478
45 IAC 2.2-5-28			(186)			689	(475)		28
45 IAC 2.2-5-29						12			12
45 IAC 2.2-5-33						1,065			1,065
45 IAC 2.2-5-35						3,121			3,121
45 IAC 2.2-5-36					405	18,819		13,448	112 32,784
45 IAC 2.2-5-39			(212)	(116)	(50)		(269,367)		(269,745)
45 IAC 2.2-5-4	5,162		1,075	8,734	1,276			1,543	17,790
45 IAC 2.2-5-40			23	1,012	4,434	234	160	2,772	8,635
45 IAC 2.2-5-41					131				131
45 IAC 2.2-5-42			1,907	92	749		214	421	3,383
45 IAC 2.2-5-43		85	377	17,249	1,854		8,141	4,863	32,569
45 IAC 2.2-5-44				494					494
45 IAC 2.2-5-45		86	179		6	46	8,611		8,928
45 IAC 2.2-5-5								897	897
45 IAC 2.2-5-52					15,308				15,308
45 IAC 2.2-5-53						(4,128)		(6,151)	(10,279)
45 IAC 2.2-5-54	6,717			1,208	(32,595)		799		(23,871)
45 IAC 2.2-5-55					1,058		19,276	4,904	25,238
45 IAC 2.2-5-57					227		41,786	1,578	43,591
45 IAC 2.2-5-6	47							(7,393)	(7,346)
45 IAC 2.2-5-61			541	14,082				193,174	207,797
45 IAC 2.2-5-62				(1,467,019)	20,490			32,183	(1,414,346)
45 IAC 2.2-5-63								4,238	4,238
45 IAC 2.2-5-65							1,513		1,513
45 IAC 2.2-5-67				73,284					73,284
45 IAC 2.2-5-7	(52)		(1,307)						(1,359)
45 IAC 2.2-5-70								(549)	(549)
45 IAC 2.2-5-8	18,014	80,967	8,911,137	78,435	38,663	395,857	2,351	1,083,891	10,609,315
45 IAC 2.2-5-9	7,094	24,592	4,692						36,378
45 IAC 2.2-6-1	26,827	5,379	(1,875)	38,522	12,572		52,019	122,251	146 255,841
45 IAC 2.2-6-12				(2,481)	327,823			221,638	546,980
45 IAC 2.2-6-13				(1,429)					(1,429)
45 IAC 2.2-6-14	1,871	3,270	1	(32,481)	(2,933)			2,128	(28,144)
45 IAC 2.2-6-15					(409)			208	(201)
45 IAC 2.2-6-21								1,052,712	1,052,712
45 IAC 2.2-6-26					10				10
45 IAC 2.2-6-8	52,959	532,753	25,977	1,635,319	528,453	59,892	375,859	558,926	3,770,138
45 IAC 2.2-7-2					15,878			84	15,962
45 IAC 2.2-7-3							33,118		33,118
45 IAC 2.2-7-6					(2,773)				(2,773)
45 IAC 2.2-7-7				1,777				417	2,194
45 IAC 2.2-8-12	8,806	49	47,679	26,827	(38,324)	980	56,246	196,497	950 299,710
45 IAC 2.2-8-15								(81,622)	(81,622)
45 IAC 2.2-8-2				50	25		25		100
45 IAC 2.2-8-6					27,514				27,514
45 IAC 2.2-9-5					695				695
Grand Total	575,772	1,134,982	9,422,046	6,193,019	4,910,661	601,422	3,872,904	5,866,145	16,011 32,592,962

\*See accompanying text for detail of SIC categories.

**Sales and Use Tax Violations by Industry Group**



**Sales and Use Tax Dollars Assessed by Industry Group**



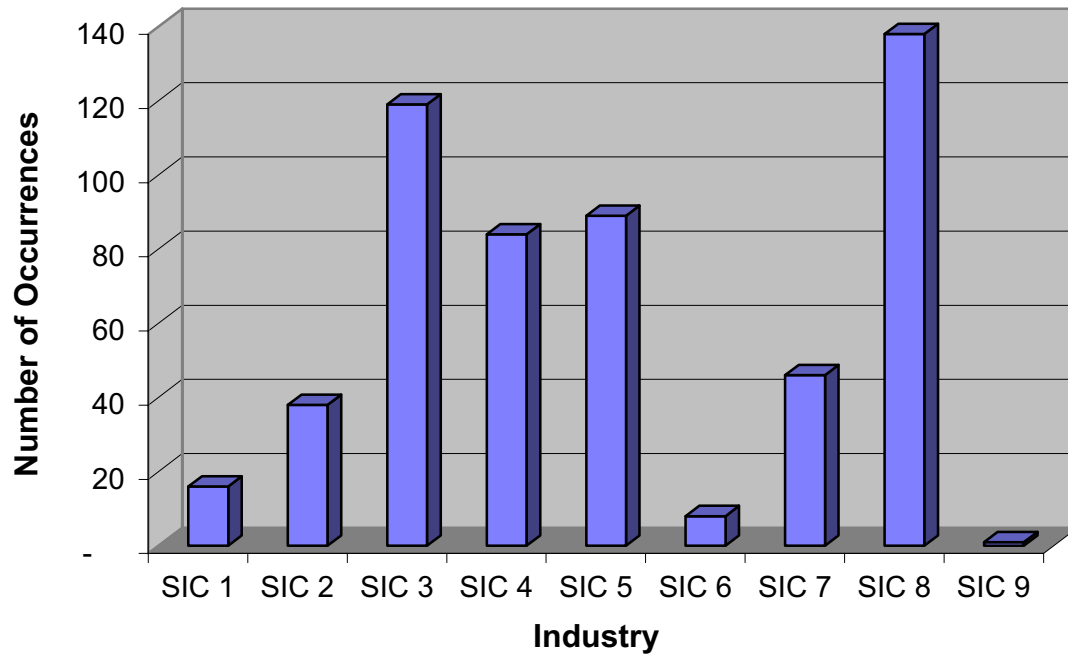
# Exhibit E

## Dollars Assessed in 45 IAC Citations by Industrial Code Adjusted Gross Income Tax Audits

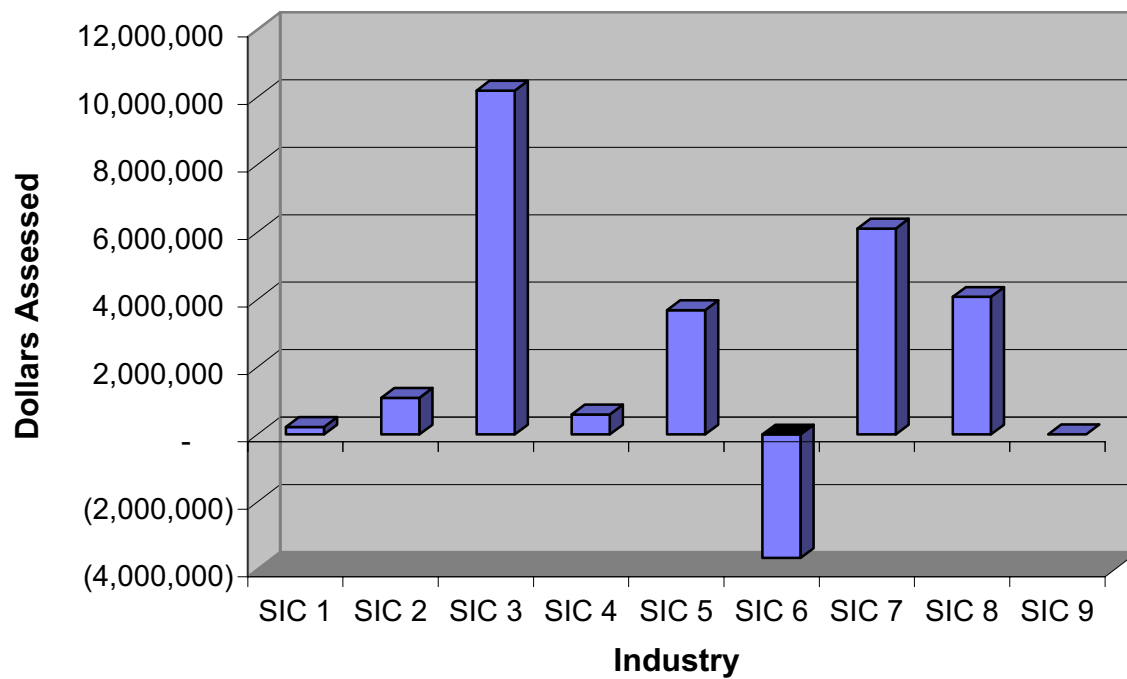
Sum of Results	SIC *									
Citation	1	2	3	4	5	6	7	8	9	Grand Total
45 IAC 3.1-1-1	67,136	23,692		129,228	78,255		13,328	101,757	5,548	418,944
45 IAC 3.1-1-100				1,364	(2,497)					(1,133)
45 IAC 3.1-1-101							1,132			1,132
45 IAC 3.1-1-102					8,596					8,596
45 IAC 3.1-1-103								(6,104)		(6,104)
45 IAC 3.1-1-106		31,970			1,424		433	23,770		57,597
45 IAC 3.1-1-107			61,441				2,012,396			2,073,837
45 IAC 3.1-1-108					11,038		3,198,022			3,209,060
45 IAC 3.1-1-109			1,702	1,166	784	118	9,390	3,174,093		3,187,253
45 IAC 3.1-1-110			3,410		10,188					13,598
45 IAC 3.1-1-111		2,000		18,715			157,448			178,163
45 IAC 3.1-1-115			1,971							1,971
45 IAC 3.1-1-152							13,025			13,025
45 IAC 3.1-1-153			13,000							13,000
45 IAC 3.1-1-2		13,990	1,323	221	5,664		30,066	69,397		120,661
45 IAC 3.1-1-25				291				7,316		7,607
45 IAC 3.1-1-28			9,400							9,400
45 IAC 3.1-1-29	68,799	96,267	690,094	269,197	86,024		(1,977)			1,208,404
45 IAC 3.1-1-3	331		(715)	563			(442)	1,951		1,688
45 IAC 3.1-1-36				(259,331)						(259,331)
45 IAC 3.1-1-37			(39,923)	121	31,196			(2,460)		(11,066)
45 IAC 3.1-1-38		150,981	(637,164)	1,793	3,343			(23,964)		(505,011)
45 IAC 3.1-1-39			8,980	327				1,517,965		1,527,272
45 IAC 3.1-1-40		(72)	453		129,818			841		131,040
45 IAC 3.1-1-41	32,081			200						32,281
45 IAC 3.1-1-43		(52)								(52)
45 IAC 3.1-1-45			(8,565)	64,064	133,432					188,931
45 IAC 3.1-1-46			(1,336)							(1,336)
45 IAC 3.1-1-47			5,130					813		5,943
45 IAC 3.1-1-48			(988)	262	(12,368)					(13,094)
45 IAC 3.1-1-49								(1,900)		(1,900)
45 IAC 3.1-1-5				1,665	305		22,042	22,935		46,947
45 IAC 3.1-1-50			32,782	(810)	(2,846)					29,126
45 IAC 3.1-1-51		4,341	43,495	(5,383)	(110,871)		676	7,085		(60,657)
45 IAC 3.1-1-52		1,815	44,514	558	44,596					91,483
45 IAC 3.1-1-53			590,844					17,420		608,264
45 IAC 3.1-1-55					281,986			126,759		408,745
45 IAC 3.1-1-56					3,330					3,330
45 IAC 3.1-1-57				2,113						2,113
45 IAC 3.1-1-58			8,620,142							8,620,142
45 IAC 3.1-1-59				617						617
45 IAC 3.1-1-62							1,043	34,772		35,815
45 IAC 3.1-1-63				3,335						3,335
45 IAC 3.1-1-64	10,246									10,246
45 IAC 3.1-1-65	14,905									14,905
45 IAC 3.1-1-66			279,196	1,301			266	25,178		305,941
45 IAC 3.1-1-67						1,444		4,113		5,557
45 IAC 3.1-1-8	2,564	1,197,590	2,333,533	108,596	963,302	3,275	362,265	(804,658)		4,166,467
45 IAC 3.1-1-9	(10,606)	(426,741)	(2,011,722)	(31,593)	(279,132)	(3,783,919)	186,923	(174,526)		(6,531,316)
45 IAC 3.1-1-92	12,538	(16,302)	(24,000)	(22,774)	(47,541)		325			(97,754)
45 IAC 3.1-1-94	514		118,269	244,927	2,119,618	119,572	454	(1,395)		2,601,959
45 IAC 3.1-1-97	24,195	1,084	50,479	57,681	10,250		94,123	13,950		251,762
45 IAC 3.1-2-1		2,397	(697)	1,853	215,492		(498)	8,997		227,544
45 IAC 3.1-2-2								(70,354)		(70,354)
45 IAC 3.1-3-1			361					1,502		1,863
45 IAC 3.1-3-2	467				711			(30)		1,148
45 IAC 3.1-3-3			2,486							2,486
Grand Total	223,170	1,082,960	10,187,895	590,267	3,684,097	(3,659,510)	6,100,440	4,075,223	5,548	22,290,090

\*See accompanying text for detail of SIC categories.

**Adjusted Gross Income Tax Violations by Industry Group**



**Adjusted Gross Income Tax Dollars Assessed by Industry Group**



## Exhibit F

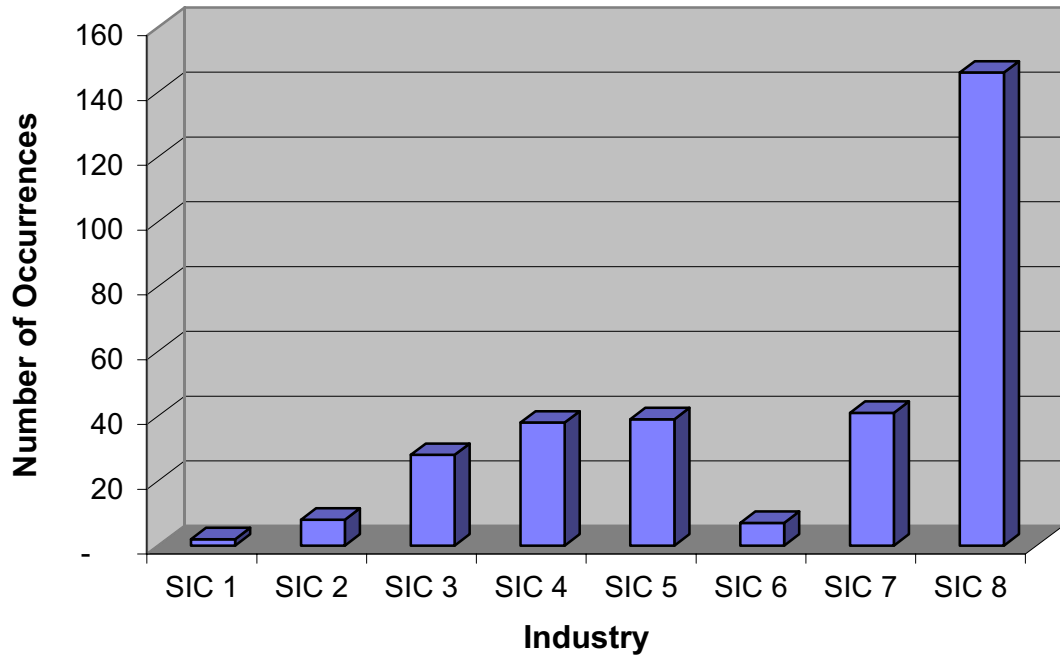
### Dollars Assessed for Misc. Code Violations by Industrial Code

Sum of Results	SIC *								
Citation	1	2	3	4	5	6	7	8	Grand Total
45 IAC 15-3-5		13,658	254					74,169	88,081
45 IAC 15-4-1								4,265	4,265
45 IAC 15-5-1					4,687				4,687
45 IAC 15-5-7				121,439				121,926	243,365
45 IAC 15-8-1				14,537					14,537
45 IAC 15-9-1								5,086	5,086
45 IAC 15-9-2	78	1,378	48	40,672	194,285			42,624	279,085
45 IAC 17-2-3					348				348
45 IAC 17-3-1						57,857			57,857
45 IAC 17-3-10					15,910,728				15,910,728
45 IAC 17-3-5						117,275			117,275
45 IAC 17-3-7					85,062				85,062
45 IAC 17-3-9					106,484				106,484
45 IAC 18-2-3					3,750		8,000	9,250	21,000
45 IAC 18-5-1							1,757		1,757
IC 13-20-13-7	225			2,249	169				2,643
IC 6-2.1-2-2					(883,426)			1,081,346	197,920
IC 6-2.1-2-3								4,096	4,096
IC 6-2.1-2-5								488	488
IC 6-2.1-3-20					(787)				(787)
IC 6-2.1-3-23								9,088	9,088
IC 6-2.1-3-24.5				(6,267)					(6,267)
IC 6-2.1-3-4				(1,707)					(1,707)
IC 6-2.1-4-3			44,025						44,025
IC 6-2.5-2-1		174,736		46					174,782
IC 6-2.5-3-2			1,068					1,494,604	1,495,672
IC 6-2.5-4-1							17		17
IC 6-2.5-4-13				345	1,640			29,351	31,336
IC 6-2.5-5-1			(8,942)		58				(8,884)
IC 6-2.5-5-13					77,716				77,716
IC 6-2.5-5-19.5		(84,476)							(84,476)
IC 6-2.5-5-20								(255,160)	(255,160)
IC 6-2.5-5-25					(223)				(223)
IC 6-2.5-5-30			823						823
IC 6-2.5-5-35					(603)		(1,968)		(2,571)
IC 6-2.5-5-5.1			4,363						4,363
IC 6-2.5-6-1								19	19
IC 6-2.5-6-14								2,567	2,567
IC 6-2.5-6-9								92,042	92,042
IC 6-2.5-7-10				1,053				(13,311)	(12,258)
IC 6-2.5-7-11								(286,511)	(286,511)
IC 6-2.5-7-13								(84,229)	(84,229)
IC 6-2.5-7-3								13,024	13,024
IC 6-2.5-7-5				15,879	42,533			158,463	216,875
IC 6-2.5-9-6				2,744					2,744
IC 6-3.1-13-2			95,077						95,077
IC 6-3.1-4-2			(93,378)						(93,378)
IC 6-3.1-4-5					904				904
IC 6-3.1-7-1					11,792				11,792
IC 6-3.5-1.1								1,157	1,157
IC 6-3.5-7-5								34	34
IC 6-3-1-3.5								(149)	(149)
IC 6-3-2-12			(79)						(79)
IC 6-3-2-2					1,193,565				1,193,565
IC 6-3-2-3.1					18,535			14,252	32,787
IC 6-3-4-13							1,581		1,581
IC 6-3-4-2							1,721		1,721
IC 6-3-4-6		592							592
IC 6-3-4-8				1,281			3,336		4,617
IC 6-5.5-1-18						260,910			260,910
IC 6-5.5-1-2					31,057				31,057
IC 6-5.5-2-5					3,290				3,290
IC 6-5.5-4-1					37,807				37,807
IC 6-5.5-4-4						32,618			32,618
IC 6-5.5-6-6					(47,619)				(47,619)
IC 6-8.1-10-3					6,202			44,781	50,983
IC 6-8.1-4-2		6,591	4	199	(6,504)		137,186	3,141	140,617
IC 6-8.1-5-1				123,216				44,954	168,170
IC 6-8.1-5-2		(2,420)							(2,420)
IC 6-8.1-5-4				26,182				2,845	29,027
IC 6-8.1-9-1		(13,709)	(69,502)					(2,407,853)	(2,491,064)
IC 6-8.1-9-2			808,570						808,570
IC 6-9-12-1							3,563		3,563
IC 6-9-12-3					934		9,333		10,267
IC 6-9-12-5			10,993		778		12,376		24,147
IC 6-9-18-3								1,106	1,106
IC 6-9-20-3				138			7,930		8,068
IC 6-9-20-4							2,582		2,582
IC 6-9-20-6							(721)		(721)
IC 6-9-21-4					7,788				7,788
IC 6-9-23-5							(232)		(232)
Grand Total	303	95,758	793,916	342,006	16,800,950	468,660	186,461	207,465	18,895,519

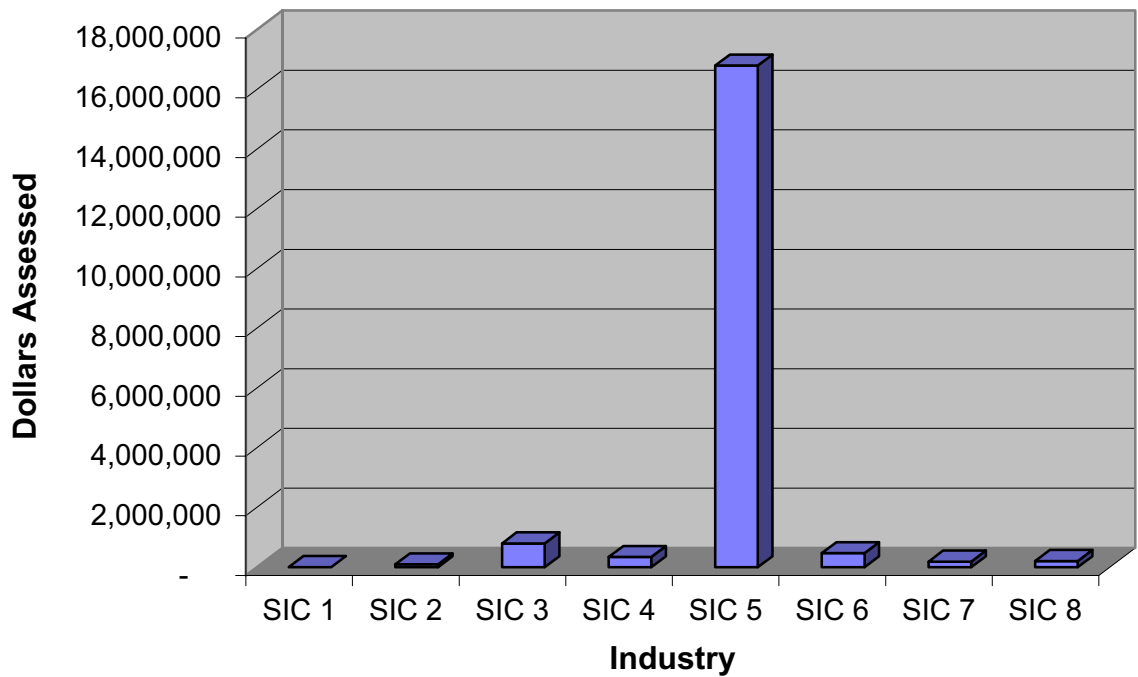
\*See accompanying text for detail of SIC categories.



**Miscellaneous Code Violations by Industry Group**



**Miscellaneous Tax Dollars Assessed by Industry Group**



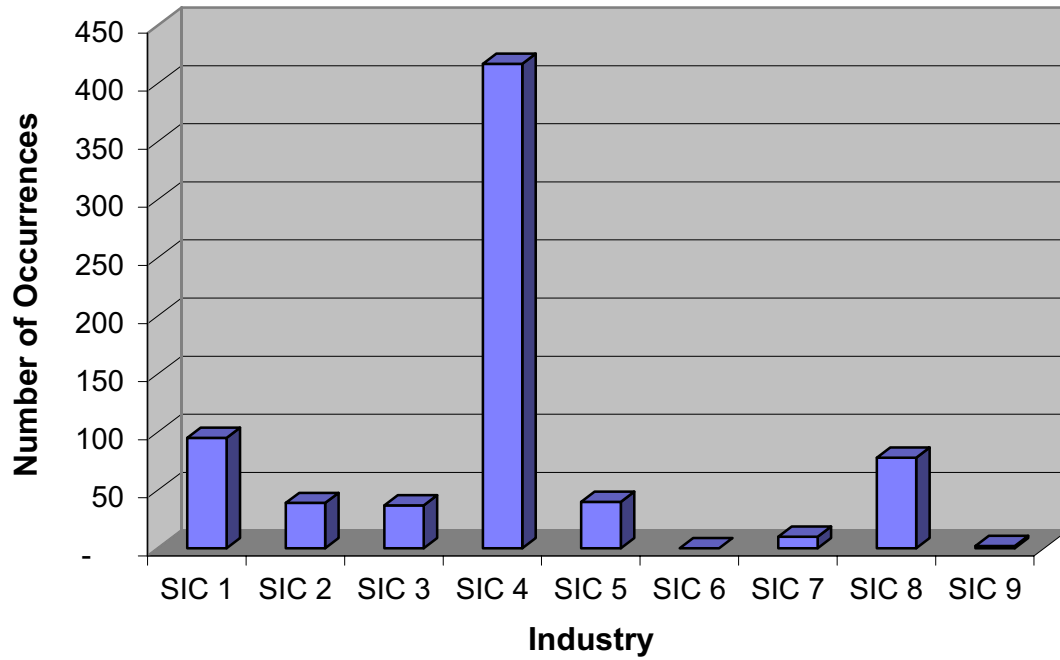
## Exhibit G

### Dollars Assessed in Code Article Citations by Industrial Code Special Tax Audits

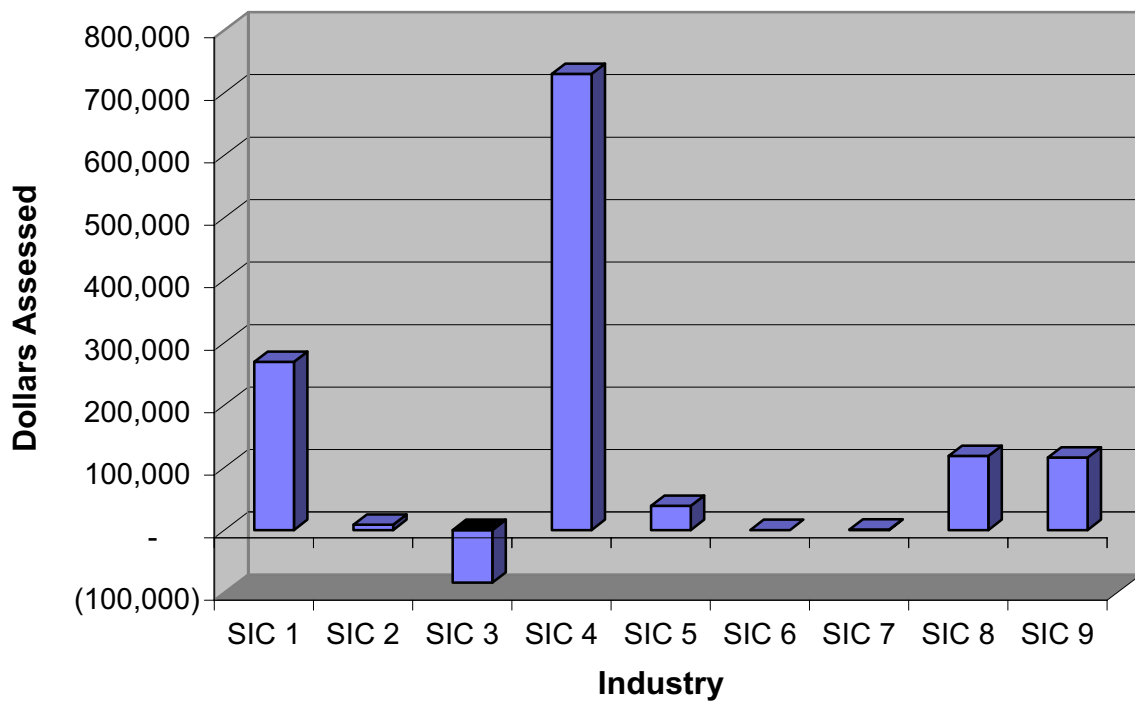
Sum of Results	SIC *								
Citation	1	2	3	4	5	7	8	9	Grand Total
45 IAC 10-6-1			(111,000)						(111,000)
IC 6-6-1.1-201				(4,745)	23,273				18,528
IC 6-6-1.1-705				8	13,980				13,988
IC 6-6-4.1-2				(1,607)					(1,607)
IC 6-6-4.1-4	62,895	(814)	5,390	100,129	319	167	2,993		171,079
IC 6-6-4.1-6	(38,100)	481	(2,150)	(45,520)		(120)	3,296		(82,113)
IC 6-6-4.1-9						178			178
IC 6-6-5.5-8	507	6	1,452	3,039	18		1,093		6,115
IC 6-7-1-19	192,551				976				193,527
IC 6-7-2-12								115,920	115,920
IC 6-7-2-7	2,757								2,757
IC 7.1-4-2-1					1,233				1,233
IC 7.1-4-4-1							1,934		1,934
IC 8-2.1-20-7	329	60	5	3,335			1,085		4,814
IC 8-2.1-22-33				190					190
IC 8-2.1-22-39			5	75			145		225
IRP Article XV-1502	3,549	1,992	18,552	36,230	227		33,547		94,097
IRP Article XVII-1700	175	22		3,758	(39)	(1)	(973)		2,942
R1000	(40,068)	(5,644)	(1,435)	42,884	1,685	(148)	(10,176)		(12,902)
R1200	11,817								11,817
R800	72,606	7,557	4,746	432,302	(3,202)	480	85,631		600,120
R810		4,725							4,725
R970				159,759					159,759
Grand Total	269,018	8,385	(84,435)	729,837	38,470	556	118,575	115,920	1,196,326

\*See accompanying text for detail of SIC categories.

**Special Tax Violations by Industry Group**

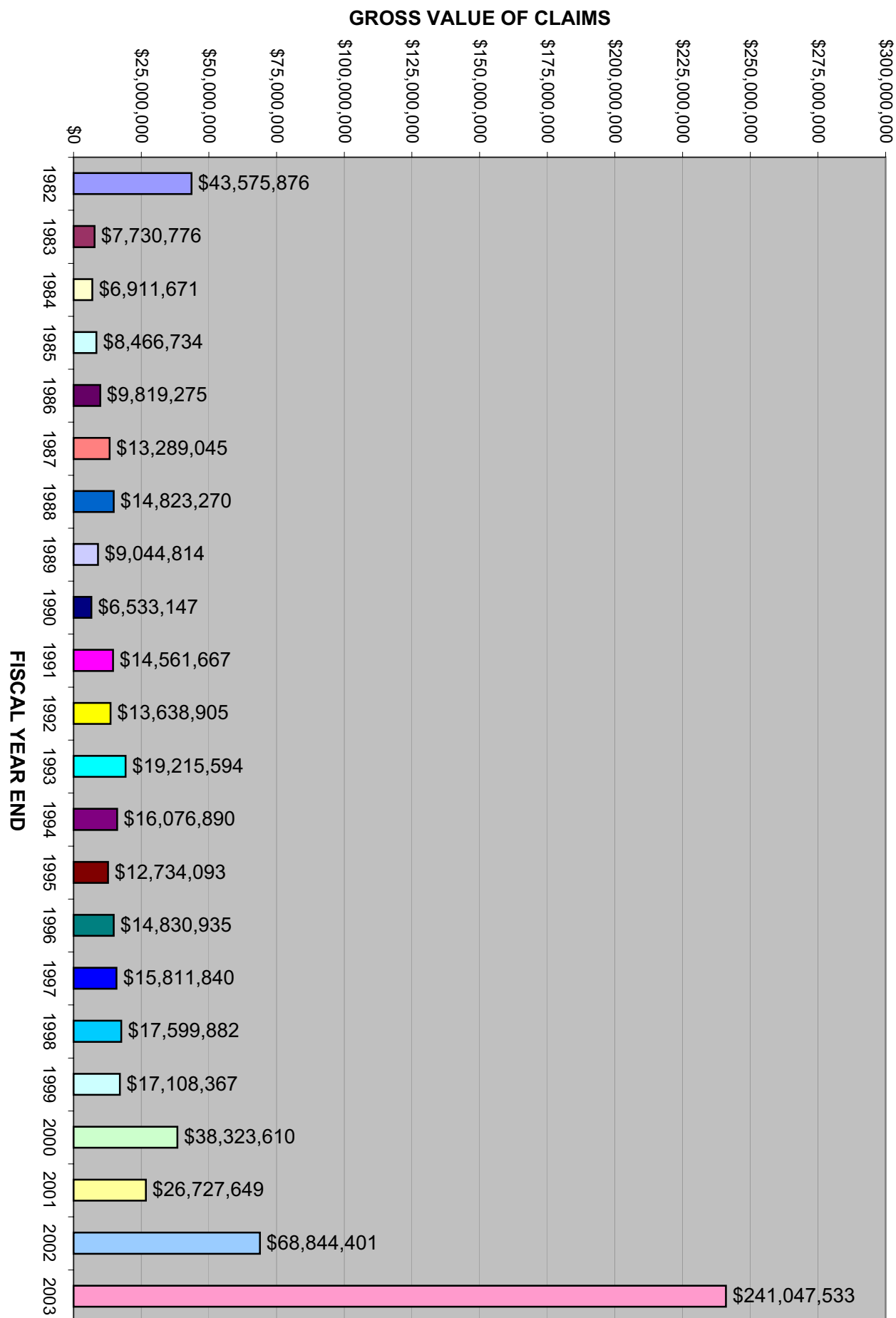


**Special Tax Dollars Assessed by Industry Group**

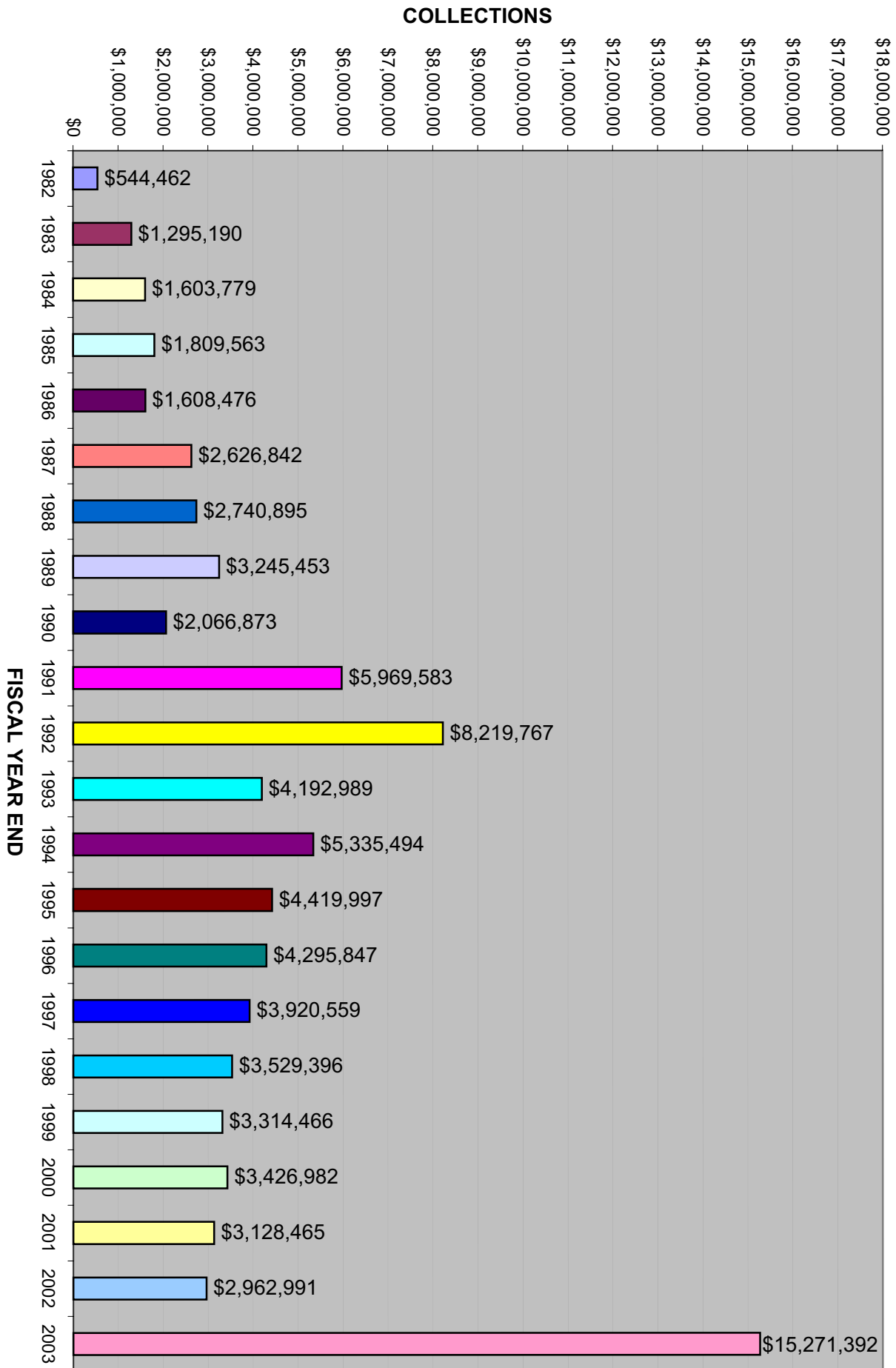




# BANKRUPTCY 20+ YEAR COMPARISON

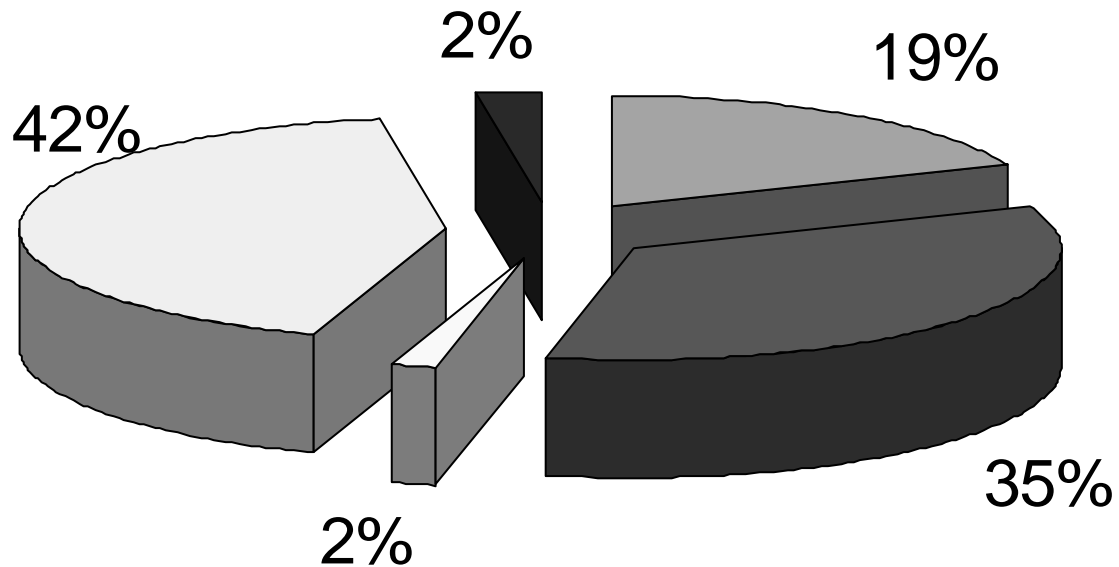







# BANKRUPTCY 20+ YEAR COMPARISON





# 2002 Indiana Individual Income Tax Breakdown by Filing Method



-  2D Barcode
-  Electronic
-  Internet
-  Paper
-  Telefile

## 2002 Indiana Individual Income Tax Filing Numbers and Percentages

Internet	45,658	2%
2-D Barcode	543,527	19%
Fed/State TeleFile	69,732	2%
Fed/State Electronic	1,007,809	35%
Paper	<u>1,205,072</u>	42%
Grand Total	2,871,798	

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## **Z**

*No Entries*